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REPORT
of the
GOVERNOR'S ADVISORY TASK FORCE
on the
DEPARTMENT OF REVENUE

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SUBMITTED
to
GOVERNOR MICHAEL S. DUKAKIS
by
PAUL R. MCDANIEL, CHAIRMAN

July 25, 1983

833/148

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July 25, 1983

The Honorable Michael S. Dukakis
Governor
The Commonwealth of Massachusetts

Dear Governor Dukakis:

The Advisory Task Force on the Department of Revenue which you appointed on December 1, 1982, is pleased to submit its Report to you.

The Task Force had its origins in allegations of misconduct which undermined public confidence in the integrity of the Department and severely impaired the morale of the vast majority of honest DOR employees. Our Report sets forth detailed recommendations to deal with this issue.

In addition, pursuant to your charge, we analyzed the entire range of Departmental operations. Our Report contains recommendations that we believe will make the Department more efficient and more professional.

Our Report also urges a major upgrading of the Department's ability to provide needed automated and technical assistance to cities and towns. We believe these recommendations are equally as important as those we make with respect to the system of tax administration.

This Report proposes a comprehensive five-year plan to computerize, professionalize and depoliticize the Department of Revenue. To insure that these proposals are acted upon we urge that you formally constitute a group charged with the responsibility of providing biannual public reports on the progress made in instituting the Task Force reforms.

Our study has taken the better part of eight months. We have been assisted to a truly remarkable extent by the volunteer efforts of our consultant groups and by individuals and organizations which have extensive experience with the Department. Most of all, we have had complete cooperation from all Departmental personnel with whom we have been in contact. All have our thanks.

It has been a privilege to serve in this important work.

Respectfully submitted,

Governor's Advisory Task
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Revenue

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REPORT OF THE GOVERNOR'S
ADVISORY TASK FORCE ON
THE DEPARTMENT OF REVENUE

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SUMMARY OF REPORT

The report of the Governor's Advisory Task Force on the Department of Revenue sets forth a five-year plan to achieve two major objectives:

-- Increase public confidence in the integrity and efficiency of the Department.

-- Insure that the state collects the revenues that are due under existing tax law and rates.

A major impetus for the formation of the Task Force was the public disclosure of alleged acts of misconduct by taxpayers and departmental employees. Governor Dukakis charged the Task Force to study the entire range of DOR operations and to submit recommendations which would both improve the efficiency and effectiveness of those operations and help restore the morale of the majority of honest, competent employees in the department.

And indeed we found that these issues were intertwined. A problem in one area has ripple effects across several. For example, uncollected accounts receivable stand at more than \$300 million and are growing by \$40 million per year. An inadequate accounts receivable system not only results in less revenue, it permits the few dishonest taxpayers and/or tax collectors to operate too easily. It also makes it difficult to write off uncollectable amounts on an objective basis, thus too often placing the Commissioner in the untenable situation of having to decide between carrying out his collection responsibilities and closing down a business.

The Department is a large organization with a complex mission. As would be expected, we found that there are a number of areas of strength and a number of areas where improvement is needed. On the positive side, the Department is collecting and processing some \$5 billion per year. It has initiated over the past several years more efficient automated processes for revenue collection and cash management. Refunds for individual taxpayers have been considerably accelerated. Greater assistance to taxpayers has been provided, particularly in the prompt response to taxpayer requests for rulings on particular issues. The Division of Local Services has been attempting to provide increased technical assistance to cities and towns as they grapple with court mandated revaluations and the impact of Proposition 2 1/2.

We also found areas in which major improvements are needed. Until recently there was no effective internal inspection system within DOR to insure the integrity of dealings between Departmental employees and taxpayers. The Department believes there is a significant volume of tax evasion each year. Too many critical Departmental activities are manually performed and the

computer operation is in need of major expansion and upgrading. Long range planning has been little in evidence. There is a critical shortage of middle managers. Capable lower-level employees are too frequently lost or frustrated by the lack of career development and management succession programs. More sophisticated technical and financial planning assistance is needed by cities and towns.

Our report addresses six major areas in which we believe improvements can and should be made. In the "Action Analysis" included in the report, we have indicated the legislative or administrative action required to implement each recommendation. In addition, the Action Analysis suggests when work on each recommendation should begin so that implementation of our recommendations can be substantially completed within the five year time frame we proposed. The Action Analysis thus provides a practicable approach by which the executive and legislative branches can insure that the total plan we have put forth is brought to fruition.

The following summarizes our principal findings and recommendations in the six areas we studied.

Electronic Data Processing.

It is ironic that a tax collection agency located in one of the computer centers of the world should have inadequate computer systems as one of its major operational deficiencies. But we found this to be the case. While several of the taxes for which the Department is responsible have been computerized, many have not. The systems for the computerized taxes are not adequately integrated. Moreover, large and critical areas of Departmental operations are entirely manual. The lack of fully automated systems contributes to a number of problems: an unacceptably large and growing accounts receivables figure; an inability to give taxpayers timely and accurate information concerning their own tax accounts; the lack of an automated system for selecting returns for audits; an inability to provide policymakers with rapid and sophisticated analyses concerning the impact of proposed tax changes; virtually no capacity for managers to evaluate particular operations and target resources in the most cost effective manner; and a limited capacity to identify and track down nonfilers and delinquent taxpayers.

We recommend that the Department create a policy committee to establish EDP priorities and to formulate and oversee implementation of a five-year plan for a substantial increase in the Department's computer capacity. A primary goal of the five-year plan should be an EDP system which for each tax can perform revenue accounting, desk auditing and assessing, delinquency and refund noticing, audit selection, management reporting, and taxpayer information. A computer model should be

developed which can measure potential revenues by tax, determine the revenue impact of proposed tax policy changes, and monitor actual against projected results. Our proposals include specific recommendations for each of the identified elements of the overall computer system.

The actions required to implement our electronic data processing proposals and to develop a comprehensive program to computerize all the Department's vital functions will require a commitment on the part of the executive and legislative branches to a major investment in the Department. We believe that the investment will yield a return many times in excess of its cost. For example, our consultants have estimated that an automated audit and collection system, when fully operational, can produce a one-time revenue gain of \$50- 75 million from the existing pool of over \$300 million in accounts receivable. An estimated five percent productivity gain from automation of the revenue accounting systems would yield a further \$25 million dollars annually. While it is difficult in advance to place precise cost figures on the investment required to produce these impressive yields, \$10 million for increased computer capacity and an increase in the annual computer operation budget from \$4 million to \$8 million appear to be realistic. These increased costs would, of course, not be incurred immediately; funds would be required gradually over the five-year time period projected for implementation of our recommendations.

Taxpayer Assistance.

Although taxpayer assistance has improved in recent years, three major problems require attention. Virtually every taxpayer group with which we met complained of the complexity of the tax forms and the lack of clarity in the instructions accompanying those forms. Second, tax advisors asserted a lack of professionalism in the Department in failing to develop and adhere to published rulings and regulations. Third, the time lag in obtaining abatements to which taxpayers were entitled is unacceptably long, averaging at least a year.

The Task Force recommends that a unit be created within the Department whose sole responsibility is the continuing revision and simplification of all tax forms. Moreover, a great deal of the difficulty experienced by taxpayers in filling out Massachusetts tax returns has been the failure to adapt Massachusetts tax law to Federal income tax changes on a timely basis. The Task Force recommends that all changes in Federal income and estate tax laws be automatically adopted by Massachusetts unless the Legislature disapproves any particular Federal change. Rulings and regulations should be published on a timely basis and adherence to them should be expected both of Department officials and taxpayers alike. The refund process should be streamlined so that only refunds in excess of \$100,000

require the full review of the Department, the Executive Council, the Comptroller and the State Treasurer.

Our proposal with respect to the simplification of the tax forms can be undertaken within the Department immediately. Legislation will be required to implement our proposal to adapt Massachusetts tax laws more quickly to Federal tax changes. Improvements in the ruling and regulation processes can be instituted by the Department without further legislation. Legislation will be required to streamline the refund procedure to insure the taxpayers will receive their refunds on a more timely basis and reduce interest costs to the State.

Management of Resources and Organizational Structure.

The Department's budget is in excess of \$40 million annually. Yet, until recently, Departmental managers did not participate in the preparation of the budget and thus could not be held accountable for maintaining expenditures within approved levels. In addition the accounting records of the Department with respect to its own budget are entirely manual.

The Department began reorganizing along functional lines in 1978, but that reorganization is as yet incomplete. As a result, responsibility for carrying out a single function, such as audit, is spread across many bureaus in the Department. A lack of consistency in taxpayer treatment and inefficiency in operations has resulted.

The Task Force recommends that the Department decentralize its budget process and computerize its budget accounting records. The reorganization of the Department along functional lines should be continued as expeditiously as possible with the objective of completing the reorganization within five years.

The Department has begun the necessary revision of its budget process and this can be completed by further administrative action. Computerization of the budget function will require additional funds, but should be capable of being carried out within the cost figures previously described. Reorganization of the Department along functional lines has already been legislatively authorized and can and should be completed by appropriate administrative action.

Local Services.

Three major developments in recent years have placed a heavy responsibility on the Division of Local Services. First, cities and towns have been required to institute and maintain valuations on a current full-market value basis. Second, Proposition 2 1/2 has imposed stringent financial limitations on cities and towns.

Third, the state has committed itself to remit 40% of increased revenues annually to aid cities and towns. The state has a dual responsibility to provide the assistance needed by local government units to meet these new conditions and to insure state funds are wisely expended. The court mandated revaluation process cannot be sustained without computerization. Likewise a computerized data bank is essential to enable cities and towns to utilize their resources in the most efficient and effective manner. Finally, although the state is returning over \$2 billion dollars a year to cities and towns, there is no state requirement that the financial accounts of local government units be audited on a uniform and periodic basis.

The Task Force recommends that the Department institute a computer assisted mass appraisal system ("CAMA"). In addition, the Department should provide increased technical assistance to local government units through more sophisticated technology, expanded management consulting services, appraisal services (especially in valuing complex properties), and aid in converting local financial reporting systems to the Uniform Municipal Accounting System. All local government units should be required to obtain audits of their financial records on a regular basis.

The Department has begun the process of creating a computerized municipal data bank. Completion of this project is essential to provide both cities and towns and taxpayers information needed to evaluate the delivery of essential local services. The fiscal 1984 budget provides funds by which the Department can begin development of the CAMA system. Legislation will be required to implement our proposal to require periodic and uniform audits for all local government units. It is estimated that the net cost of implementing our proposals with respect to providing increased local services is about \$3 million. We recommend that this cost be funded out of the approximately \$150 million dollars in increased local aid that has been committed to be returned to state and local governments each year. This action we believe is appropriate since our CAMA, proposals alone will save cities and towns an estimated \$8-14 million annually in the form of reduced revaluation costs. The Department has formulated a Master Plan to put our proposals into effect; we urge that public discussion of the Plan begin soon.

Human Resources Management.

While our recommendations consist in a very large part of systemic changes, we recognize that any system is only as good as the people who run it. We identified a number of problems which need to be addressed to improve the morale and professionalism of the Department. The number of management level personnel within the Department is inadequate for an organization with nearly 1,750 employees. There are only 50 management positions and our consultants advised us the Department should have about 150. The

lack of a formal management development and succession program has meant that qualified and ambitious employees have too often left the Department, frustrated at their inability to rise within their chosen profession. In addition the Department has had difficulty attracting and retaining highly qualified young people because, in a number of positions, entry level salaries are not competitive with other opportunities and because no pay increases can be granted within the first three years of employment. As a result, the Department frequently loses some of its best young people precisely at the point at which they are becoming highly productive.

The Task Force recommends that the serious shortage of middle managers in the Department be remedied by the creation of 40 Deputy Bureau Chief positions. All Assistant Bureau Chief positions should be deunionized. A formal management development and succession program should be instituted. Entry level salaries should be upgraded and early year salary increases should be provided.

The fiscal 1984 Budget has provided a significant increase in Department personnel. To the extent possible the Commissioner should utilize these resources to fund the 40 Deputy Bureau Chief positions that we recommend. Because the Department has created a new First Deputy position to centralize and reorganize its personnel practices, work has already begun to implement a number of our proposals in the human resources area and we support these actions.

Integrity Issues.

We found that the Department until recently has had no effective internal audit or internal inspection system. As a result, the efficiency of DOR operations could not be checked nor could the integrity of dealings between DOR personnel and taxpayers be assured. This deficiency benefitted only the potential dishonest DOR employees and provided no protection to the vast majority of honest ones. In addition, we found a perception that there is improper political intervention regarding individual taxpayer affairs and the hiring, assignment, and promotion of DOR personnel. It is important that this perception be addressed. One former Commissioner of Internal Revenue advised us that his experience with tax administrations around the world made clear that the degree of corruption in a tax system was directly proportional to the amount of improper political intervention to which it was subjected.

To deal with these problems we recommend that an inspectional service be instituted within DOR to conduct internal audits and to insure internal security. We also recommend that the Department be depoliticized by (1) making all but 4-6 top management positions in the Department removable only with cause; (2) prohibiting all DOR employees from contributing to or

participating in any campaign for state office; and (3) requiring that all third-party contacts to the Department concerning the affairs of any taxpayer or the status of any employee be made through and logged by a Problem Resolution Office.

The Department has now established an inspectional service under a First Deputy Commissioner. A Problems Resolution Office has been created which can implement our proposal with respect to third-party contacts. Those officers need to be fully staffed as soon as possible. Legislation is required to implement our other proposals in this area. If our proposals are adopted, the public will have been given the assurance that the Department of Revenue is off-limits to inappropriate political influence.

As the above summary indicates, we are proposing a major commitment by the State to insure that the Department of Revenue is in the front rank of state tax administrations in this country. At the risk of oversimplification, our report consists of a set of recommendations to computerize, professionalize and depoliticize the Department of Revenue. But no one should be deceived that our proposals are either simple or easy to implement. We do not propose a "quick fix" for the Department. The actions we recommend cannot be completed within one year or even three years. Indeed, carefully staged timing will be required to begin action on each proposal lest both the human and mechanical systems of the Department be overloaded. We recognize that the time, money and effort required are substantial. We believe that, if the requisite executive and legislative commitment is made, the Commonwealth will have a Department of Revenue in which the public can have great confidence and in which employees will serve with pride.

ACTION ANALYSIS
for IMPLEMENTATION of
TASK FORCE RECOMMENDATIONS

RECOMMENDATIONS	IMPLEMENTATION CATEGORY*	LEGISLATIVE ACTION REQUIRED**	ADMINISTRATIVE ACTION REQUIRED***
<u>THE TAX ADMINISTRATION SYSTEM</u>			
Retruns and payments for all taxes (other than those for which a lock box is used) should be received by a single office within the Department.	(2)		yes
Procedures should be developed and automated equipment acquired which separate checks from returns, stamp both the return and the check with an identical identification number, deposit the checks within 24 hours of receipt, and microfilm the return.	(2)	\$	yes
Depository bank accounts should be established at all Multistate and District Office locations and daily deposits made of all amounts collected by those offices.	(1)	\$	yes (State Treasurer)
The motor vehicle excise tax and the taxes on boats, recreational vehicles, airplanes and off-road vehicles, like other sales and excise taxes, should be collected by the selling dealers and remitted to DOR every 15 days if sales exceed a specified amount and in all events within 30 days.	(3)	yes	
The Commissioner should create a policy committee at the current Deputy Commissioner level to establish EDP priorities and to formulate and oversee implementation of a five-year plan for a substantial increase in the DOR's computer capacity.	(1)		yes

* (1) indicates that implementation of the recommendation should commence in 1983-1984; (2) indicates that implementation should commence in 1984-1985; (3) indicates that implementation should begin in 1984-1985. The schedule contemplates substantial completion of the plan in 1988.

** A \$ sign indicates that additional funds will be required to implement the recommendation.

*** In some instances, action is also required by other Departments or State officials, as indicated.

RECOMMENDATIONS

RECOMMENDATIONS	IMPLEMENTATION CATEGORY*	LEGISLATIVE ACTION REQUIRED**	ADMINISTRATIVE ACTION REQUIRED**
A primary goal of the five-year plan should be an EDP system which for each tax can perform revenue accounting, desk auditing and assessing, delinquency and refund noticing, stratified judgmental and random audit selection, case tracking, consolidation of all accounts receivable by taxpayer, management reporting, on-line retrieval of taxpayer information and microfilm/microfiche functions.	(3)	\$	yes
A microcomputer-based model should be developed which can measure potential revenues by tax, determine the revenue impact of proposed tax policy changes, and monitor actual against projected results.	(2)	\$	yes
The disaster recovery plan should be completed and information security safeguards should be evaluated and tightened as needed.	(1)		yes
The audit and assessment functions for all taxes should be combined in a single Bureau.	(3)		yes
An automated audit selection program should be developed which would scan returns for high audit potential.	(2)	\$	yes
In the interim, objective audit selection standards and procedures should be developed for each tax and adherence to them should be closely monitored.	(1)		yes
A computerized accounts receivable system should be developed which would (1) include all taxes owed by a single taxpayer, (2) cross reference to refund actions, (3) segment all items by size, age, type, and location, and (4) monitor collection efforts.	(1)	\$	yes
Criteria should be established under which uncollectible accounts receivable can systematically be identified and written off and the requirement that write-offs be approved by the Appellate Tax Board should be eliminated.	(2)	yes	yes

- Pending the implementation of the recommended automated system, short-term collection actions should be taken as feasible, including introduction of an automated multi-notice collection system, automation of accounts receivable systems for those taxes presently handled manually, development of a system to classify accounts receivable by size and case type and to deploy collection agents accordingly, exploration of increased use of telephone collection techniques for small accounts, and increasing the number of collection personnel.

(1)

\$

yes
- Study should be undertaken of possible cross checks to records of other government units to assist in identifying non-filers and assets of delinquent taxpayers.

(2)

yes
- The increased enforcement efforts and penalties for non-compliance should be vigorously pursued by the Department and given widespread publicity.

(1)

yes
- Abatement and refund procedures should be fully automated for all taxes.

(3)

\$

yes
- The review process for issuing refunds should be amended to provide that all refunds less than \$100,000 be approved solely by a special DOR review panel; only refunds in excess of \$100,000 should require review by the Comptroller, the Executive Council and the Treasurer.

(3)

yes
Constitutional
Amendment
- The automated revenue accounting function should be designed to provide the Commissioner and management level personnel with sophisticated management information for optimal deployment of Department resources.

(3)

\$

yes

TAXPAYER ASSISTANCE AND DISPUTE RESOLUTION

- A unit should be created within the Department whose sole responsibility is the continuing revision and simplification of all tax forms.

(1)

yes

- Legislation should be adopted providing that all changes in federal income and estate tax laws are automatically adopted by Massachusetts unless the legislature disapproves the adoption of any of such changes.
- A Problem Resolution Office (ombudsman) should be implemented to which and through which all inquiries concerning a special problem being experienced by a particular taxpayer should be required to be directed; all contacts by any person other than the taxpayer (which are not initiated by the Department) with respect to the tax status or liability of any taxpayer should be logged; participation in the violation of these requirements by any employee should constitute a breach of the Code of Conduct.
- Adequate computer back up and enhanced training programs should be provided for the Taxpayer Assistance Bureau to enable it better to respond directly to taxpayer inquiries.
- The issuance of rulings for all taxes to particular taxpayers should be the responsibility of the Rulings and Regulations Bureau.
- Rulings should be made public, with appropriate taxpayer identification material omitted; published rulings should be classified between those which are binding on the Department in dealing with all taxpayers on issues covered by the ruling and those which are to have no precedential force.
- Issuance of Regulations for all taxes should be the responsibility of the Rulings and Regulations Bureau.
- Working with tax professionals, the Bureau should establish a list of needed regulations projects, establish priorities, and issue high priority regulations as soon as possible.

yes

yes

yes

\$

yes

yes

yes

yes

RECOMMENDATIONS

IMPLEMENTATION CATEGORY*	LEGISLATIVE ACTION REQUIRED**	ADMINISTRATIVE ACTION REQUIRED**
-----------------------------	----------------------------------	-------------------------------------

The collection of assessed individual and state taxes should be stayed (subject to interest charges) until the taxpayer has exhausted all administrative appeals within DOR; the Commissioner, however, should have powers, such as to make jeopardy assessments, to effect or secure collection if collection of the tax is imperiled.

The Commissioner should in appropriate cases request the Attorney General to designate Department attorneys as Special Attorneys-General to represent the Department in civil tax litigation before the Supreme Judicial Court.

Overpayments and underpayments of all taxes (and related interest charges) as determined on audit should be offset against each other for the period covered by the audit.

MANAGEMENT OF RESOURCES AND ORGANIZATIONAL STRUCTURE

The process of preparing annual Departmental budgets should be revised to require preparation of a budget by each Bureau, which should then be held responsible for maintaining expenditures within its approved levels.

The accounting records of the Management Resources Office should be computerized.

Formal budget training programs should be established for Deputy Commissioners and Bureau Chiefs.

A computerized system of activity codes which permits budget requests to be compared to spending levels should be developed to provide management with the tools to make effective allocations of resources.

The organization of the Department along functional lines, rather than by type of tax, should be continued as expeditiously as possible with the objective of completing the reorganization within five years.

(2)	yes	
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(2)	yes	yes (Attorney General)
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(2)		
-----	--	--

(1)		yes
-----	--	-----

(2)	\$	yes
-----	----	-----

(2)		yes
-----	--	-----

(3)		yes
-----	--	-----

(3)		yes
-----	--	-----

RECOMMENDATIONS	IMPLEMENTATION CATEGORY*	LEGISLATIVE ACTION REQUIRED**	ADMINISTRATIVE ACTION REQUIRED***
<u>LOCAL SERVICES</u>			
The Department should institute a computer assisted mass appraisal system (CANA).	(1)	\$/yes	yes
The Department should provide increased technical assistance to local government units through more sophisticated technology, expanded management consulting services, appraisal services in valuing complex properties, and aid in converting their financial reporting systems to the Uniform Municipal Accounting System.	(2)	\$	yes
All local government units should be required to obtain audits on a regular basis.	(3)	yes	
The Division of Local Services should be provided increased personnel and technological support to carry out Task Force recommendations.	(2)	\$	yes
<u>HUMAN RESOURCES MANAGEMENT</u>			
To overcome the serious shortage of line managers, 40-Deputy Chief of Bureau positions should be created promptly; in the longer term, all Assistant Bureau Chief positions should be made non-unionized management positions.	(1)	yes	yes
Department-wide professional and career training programs must be instituted.	(2)		yes
Entry-level salaries should be upgraded and early-year salary step-ups should be provided to enable the Department to compete more effectively with comparable private sector job opportunities.	(2)	\$/yes	
The system of merit pay increases should be expanded.	(2)	\$/yes	
A job classification program should be approved and implemented.	(2)		yes (Department of Personnel Administration)

RECOMMENDATIONS	IMPLEMENTATION CATEGORY*	LEGISLATIVE ACTION REQUIRED**	ADMINISTRATIVE ACTION REQUIRED***
<ul style="list-style-type: none"> A job description project should be undertaken and a performance evaluation system implemented. A formal management development and succession program should be implemented. The Department should aggressively pursue affirmative action programs in new hiring. 	<ul style="list-style-type: none"> (3) (3) (1) 		<ul style="list-style-type: none"> yes (Department of Personnel Administration) yes yes
INTEGRITY AND EFFICIENCY ISSUES			
There should be created a separate Division of Inspectional Services under the supervision of a Deputy Commissioner who reports only to the Commissioner.	(1)		yes
The Division should be composed of two separate offices: one for internal security and one for internal audit.	(1)		yes
The Inspectional Services Division functionally must be completely independent of all other operations in the Department and should be physically located outside the Department.	(1)		yes
Employees within the Inspectional Service should be highly trained career employees within that Division alone, should not be members of the employee union, and should be given adequate powers to perform their sensitive and frequently dangerous duties.	(1)	yes	yes
A Code of Conduct should be instituted for all Departmental employees.	(1)		yes
Pre-hiring checks and investigation procedures should be established for all prospective Departmental employees.	(1)		yes
With the exception of four-six top positions in the Department, all other management positions should be made removable only with cause.	(1)	yes	

<p><u>Legislation should be enacted prohibiting all Departmental employees from making contributions to or on behalf of any candidate for state office or from participating in the campaign of any such candidate.</u></p>	<p>(1)</p>	<p>yes</p>	
<p><u>The Commissioner should promulgate a requirement that all personnel referrals, recommendations and other contacts not initiated by the Department be logged, showing the name, date, Department employee contacted, person making the contact and employee or potential employee who is the subject of the contact.</u></p>	<p>(1)</p>	<p>yes</p>	

I. INTRODUCTION

A. The Task Force Study in Perspective

The Massachusetts Department of Revenue each year successfully accomplishes tasks of major proportions, in many instances under constraints that make some of its achievements truly remarkable. In fiscal 1982, it collected some \$4.6 billion in revenues, a figure that will rise to nearly \$5 billion in fiscal 1983. Each year it processes 2.5 million individual income tax returns and 1.3 million estimated income tax returns through its computer system. More astonishingly for an operation of its size in the 1980's, DOR processes manually over 225,000 corporate, excise and estate tax returns and some 500,000 assessments, abatements, refunds, and other adjustments each year. In fiscal 1982, the Compliance Bureau alone had over 175,000 collection cases and collected \$65 million; yet it had to accomplish this task with virtually none of the automated accounts receivable collection systems routinely utilized by even medium-size businesses. It obviously takes a staff that is composed in the greatest part of hard working, competent people to handle the sheer volume of items that flow through the Department each year. The Task Force consultant groups uniformly report that this is their assessment of the DOR staff.

Despite DOR's accomplishments, the Task Force found that persons outside the Department -- too many persons in its opinion -- view it as inefficient, subject to and perpetuating improper political influence in its operations, often arbitrary, unprofessional and insensitive in its dealings with the public, and, most seriously, a source of corruption within State government. These perceptions, if true, would constitute a serious indictment of the Department. Indeed, from the standpoint of the continued successful operation of a largely self-assessing tax system, the existence of the perceptions is nearly as damaging as is actual evidence on the matters.

Certainly there are data which at least indicate that these concerns must be investigated and, where appropriate, addressed. For example, in the decade from 1973-1982, collections in nominal, non-inflation adjusted dollars rose from \$2.1 billion to \$4.6 billion. This seemingly good record masks the fact, however, that almost all this increase can be accounted for by inflation. Using 1982 inflation adjusted dollars, revenues rose from \$4.24 billion in 1973 to \$4.59 billion in 1982, an increase of less than 6% for the entire decade. By contrast, the costs of running the Department, using constant 1982 dollars, rose from \$28 million in 1973 to \$34.2 million in 1982, an increase of over 22%. The Task Force recognizes that these figures have been affected by many factors such as the constantly changing economy, changes in law, and those important items discussed in the following paragraphs. Nonetheless the data pose the questions whether there has been a decline in productivity and, if so, what steps can be taken to improve productivity.

There are other indicators of problems. The Department has projected a \$640 million revenue loss for fiscal 1984 as a result of noncompliance on the part of taxpayers. Moreover, net accounts receivable for taxes due and owing the Commonwealth have been rising by \$30-\$40 million per year for the past several years. Total accounts receivable now stand at

over \$300 million. We acknowledge that Massachusetts is not unique in this experience. At the Federal level and in other states concern has been expressed both over the increased degree of intentional noncompliance and the acceleration of unpaid accounts due. But there is precious little comfort in finding that our state shares in the revenue troubles of other governmental units. The figures reveal a problem which needs to be addressed.

The figures on noncompliance and nonpayment reflect, we believe, a deeper malaise among taxpayers. We found it disturbing, for example, that tax advisors who dealt with the Department on a regular basis generally complained of a lack of professionalism on the part of the Departmental employees. We are concerned that this lack of respect within the professional tax community can have adverse spillover effects as it is inevitably communicated to the taxpayers these persons represent. Indeed, there is considerable anecdotal evidence which supports the Department's estimated revenue loss from noncompliance and which suggests that too many Massachusetts citizens regard payment of taxes not as a public obligation but as a matter for private choice. A self-assessment system simply cannot survive in an atmosphere where payment of taxes is viewed as an action which one can ignore with impunity.

Finally, the Task Force conducted its studies under the shadow of criminal indictments involving a few Departmental employees. Such charges have seriously undermined the morale of the vast majority of honest DOR personnel and public confidence in them.

The report and recommendations of the Task Force have attempted to take into account both the very real progress made by and accomplishments of the Department over the past several years and yet underscore the need for a commitment for further improvement. In assessing our report and recommendations, it needs to be kept in mind that we set as our primary objective the assessment of the state of the Department at the present time. In large part, our analysis is based on the situation that existed as we began our study in December, 1982, although throughout the report we note developments that have occurred since that time. We did not attempt, nor in general did our consulting groups, to trace the evolution of Departmental practices and procedures to determine when, how, or why they reached their present state of development. Thus, in a sense, our study is a snapshot of the Department, freezing the status within the time frame of the past few months. In adopting this approach, we are fully cognizant that our report does not always give adequate credit to the Department, to former Commissioners, and to present and former DOR employees for the significant improvements they have made in the Department's operations over the past several years. In this respect we hope we will have their understanding. We offer our recommendations to continue and support their past individual contributions.

In conducting its study and preparing its recommendations, the Task Force confronted a choice between two approaches. Under one approach, we could recommend a series of discrete changes that would result in incremental improvements in various operations of the Department. On the other hand, because of the generous and enthusiastic offers of support we received from knowledgeable and experienced consultants, we had the opportunity to assess a set of coherent system changes which, if

implemented, offer the possibility for moving tax administration in Massachusetts to a position where it could command the respect of our citizens and the pride of those charged with its administration. We chose the latter. Our report, therefore, sets forth a five-year plan of action which we believe can place the Department among the best and most professional state tax administrations in the country. Our recommendations will yield important short-term benefits; but we believe their full effect will be felt well into the future.

B. The Task Force Study Methodology

On December 1, 1982, the Governor-Elect Michael S. Dukakis appointed an Advisory Task Force on the Department of Revenue composed of ten citizens with varying backgrounds in business, law, accounting and government. The Task Force was asked to study all aspects of the system of tax administration in the Commonwealth and to make recommendations to insure the integrity and efficiency of the system. The Governor specifically excluded the following aspects of the tax system from the scope of the Task Force's inquiry:

1. Tax reform issues: The Task Force did not study and does not propose any particularized changes in substantive tax legislation or tax rates. The recommendations do include proposed legislative changes required to implement recommendations concerning tax administration.
2. Investigation of particular areas of alleged misconduct by Departmental employees or taxpayers: Not being a law enforcement body, the Task Force concentrated on assessing the extent to which existing practices and procedures are conducive to potential misconduct and recommending mechanisms employed to detect and prevent such activities.
3. The judicial process as applicable to tax cases: The Task Force did not address the question whether the present system of handling tax litigation was in need of revision. In some instances, we found that the present adjudicatory process has an adverse impact on the efficiency and effectiveness of tax administration. We address those limited situations from the perspective of tax administration.

The Task Force established two broad objectives which guided our study:

- To develop a set of recommendations to insure that the state collects the revenues that should be generated under the existing tax base by improving the efficiency and effectiveness of Departmental operations.
- To develop a set of recommendations which, even though their implementation might not result in increased revenues, would lead to increased public confidence in the Department and improve the morale of Departmental employees.

The Task Force employed several study techniques to achieve these objectives. One was to gather information and recommendations from sources outside of the Department. Members of the Task Force met with

individuals and organizations that have had extensive dealings with the Department or other experience in tax administration. These external resources included legislative leadership and staff, other State agencies and departments, former Commissioners of Revenue, business and taxpayer organizations, professional legal and accounting organizations, and present and former officials of the Internal Revenue Service. Input from these individuals and organizations was freely given to the Task Force and our study has benefitted immeasurably from their contributions.

A second source of data was the experience of other states. We obtained materials relating to innovations introduced in other states, from similar studies conducted with respect to revenue departments in other states and from multi-state organizations concerned with tax administration. The information obtained from such sources is reflected throughout the report.

Finally, our most crucial sources were officials, employees, and materials presently within the Department. The Task Force felt that the most complete and objective compilation and review of Departmental data would be obtained by utilizing professionals experienced in systems analysis. We accordingly divided the operations of the Department into six functional areas which the following consulting teams reviewed:

<u>DOR Function</u>	<u>Organization</u>	<u>Consulting Group</u>
Revenue Generation	Price Waterhouse	W. James Whelan Robert L. Haddad Arthur Siegel Robert J. Amaral Raymond L. Grenier
Relationships with the Public	Arthur Young & Company	Emanuel V. Orfanon Joseph M. Flynn James L. Stam Edward Bambauer
Accounting	Deloitte, Haskins & Sells	Clyde F. Brennan L. Michael Lynch Margaret Bertalino Susan Hardy Michelle Chicoine
Local Services	Coopers & Lybrand	Ronald Coleman Warren Jones John Cassella
Personnel	Towers, Perrin, Forster & Crosby	John K. Dirlam William E. Quirk, III
Integrity and Efficiency	Internal Revenue Service	Joseph P. King Jerry J. Fay

The consulting groups applied to Department operations the methodology and techniques that are routinely used in analyzing operations of large organizations. Each consulting group interviewed appropriate Departmental personnel, examined records and manuals, monitored procedures, checked

with other relevant state offices and outside organizations, reviewed operations in other states, and in many instances drew on experience obtained in performing similar analyses for other governmental entities.

The Task Force received a report from each consulting group setting forth its findings and recommendations with respect to the Departmental function for which it had responsibility. The full report from each consulting group has been provided to the Governor and his staff, members of the Legislature with responsibility for the Department, and to Department officials. The full reports are also available for inspection by any interested person or organization in the State House Library.

The Task Force cannot stress too strongly the invaluable contributions made by the consulting groups. Without their professionalism, experience and insights, we simply could not have undertaken a study of the scope we felt was required. The Task Force and the entire Commonwealth owe an enormous debt of gratitude to the consulting organizations and personnel.

We also express our appreciation to the Commissioner of Internal Revenue, Roscoe L. Egger, Jr., for providing to the Task Force and the Department the services of two experienced members of the IRS Inspection Service. These advisors were made available to us under the Intergovernmental Personnel Act of 1970 pursuant to the request of the Governor.

In addition to the services provided by the consulting groups, a number of professionals gave many hours of volunteer service to help us evaluate and analyze the recommendations we received from the consulting groups and other sources. We wish to acknowledge particularly the contributions of the following:

Michael H. Austin
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Cambridge, Mass.

Samuel B. Bruskin
Choate, Hall & Stewart

Joseph H. Newberg
Sullivan & Worcester

Arthur B. Crozier
Barron & Stadfeld

Robert J. Pomerene
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Mecses & Gerrard

David S. Davenport
Ropes & Gray

John F. Smallwood
Former IRS official
Danvers, Mass.

Edward L. Glazer
Goodwin, Procter & Hoar

Maxwell D. Solet
Mintz, Levin, Cohn,
Glovsky, Ferris & Popeo

We also wish to express our appreciation to the employees in the Department of Revenue. Without exception, they cooperated with the Task Force and its consultants to the fullest possible extent. Their insights, experience and constructive suggestions are reflected throughout this Report.

The willingness of so many individuals and organizations to devote time, energy and resources to the Task Force study testifies, we believe, to the great interest which the citizens of the Commonwealth have in improving the revenue system. The Task Force was reassured as well as encouraged by the broad support and cooperation we received from so many in and out of government.

II. THE TAX ADMINISTRATION SYSTEM

A. Introduction

The first three sections of the report provide recommendations for systemic changes in the operations of the Department. We begin with the systems by which the Department does or should operate because we are convinced that within the existing structure of the Department's operations is to be found the source for many of the most serious problems we observed.

- It is the lack of an adequate system for establishing, tracking, managing and writing off accounts receivable for all taxes that results in literally hundreds of millions of uncollected tax dollars.
- The lack of a controlled accounts receivable system that enables the dishonest tax collector to flourish while at the same time providing inadequate support, incentive and protection to the honest collector.
- The lack of that same system fosters public suspicion that some tax accounts are written off on political grounds while inhibiting Department officials from writing off uncollectible accounts on a business-like basis for fear they will be charged with political favoritism.
- It is the lack of an adequate management control system that feeds suspicion of improper political influence in the selection for audit and the settlement of individual tax cases.
- It is an incomplete cash management system that costs the state several million dollars in lost interest income each year.
- It is the lack of a computerized data base that enables nonfilers to go undetected.
- It is the lack of a computerized accounting system that requires thousands of person hours each year to enter manually hundreds of thousands of transactions at significant cost in efficiency and productivity.
- The lack of that same system prevents the Commissioner from carrying out cost-benefit analyses, establishing goals, and increasing productivity.
- The lack of that same system prevents any effective internal audit of Departmental operations.

- It is an inadequate system of issuing regulations and rulings that causes taxpayers and their representatives to believe that the Department operates on an ad hoc and ad hominem basis rather than on a system of rules to be understood and complied with by taxpayers and the Department alike.

As the foregoing list demonstrates, a fundamental problem in a given area can have multiple adverse effects on efficiency as well as on the perception and reality of Departmental integrity. It can at one and the same time cost revenue, increase taxpayer frustration, produce inefficiency, and create a climate in which a small minority of dishonest taxpayers and tax officials can operate. It is this interaction of effects which we hope to demonstrate in this report and address in the recommendations we make.

The system of tax administration can best be understood through the cycle of operations through which the Department's revenue collection and enforcement missions are or should be carried out:

- The flow of revenues and information into the Department.
- The storing, distribution and analysis of information from tax returns.
- The audit, collection, enforcement, dispute resolution and accounting processes which are dependent on and supported by that information.

Within each of these functions we make a set of recommendations for short - and long-term changes. By taking up the recommendations in the order of the flow of items through the Department, we are not suggesting the order in which our recommendations should be carried out. It is quite possible that a higher priority should be assigned to a collection function, for example, than to one in the document processing function. However, the functions are all interrelated. Establishing optimal goals to be met in each function helps insure that implementation of a recommendation in one area will be consistent with achieving the ultimate objective in another. Without such an overall framework, it is quite possible to implement a given change that appears desirable but in fact will inhibit or even be counterproductive to the Department's ability subsequently to implement an interrelated recommendation in another area.

Establishing priorities for implementation of the Task Force recommendations is, of course, important. In a separate part of this Report, we offer our suggested priorities and a recommended time to begin implementation of each recommendation over the next five years.

B. The Flow of Information and Revenues into the Department

For all of the twenty-seven different taxes administered by DOR, the cycle begins with the taxpayer filing a return and submitting a payment. DOR's first task, therefore, is to separate the cash from the information documents as quickly as possible and begin the task of

processing the information contained in the document. At the present time, DOR uses different techniques to accomplish this task depending on the type of tax, the type of taxpayer, and/or the location of the taxpayer. Estimated income tax returns and payments go through a lock box system where a commercial bank handles the depositing of cash. Final individual income tax returns and payments are handled directly by DOR. Corporate tax returns and payments are handled by the Corporate Tax Bureau, estate tax returns payments by the Estate Tax Bureau, income tax returns and some payments by corporations domiciled outside Massachusetts by the Multi-State Division, and the motor vehicle excise tax by the Registry of Motor Vehicles. Still other payments come in from the District Offices. These payments are then forwarded to the Revenue Accounting Bureau for recording and deposit. In some exceptional cases, weeks may elapse between the physical receipt of a tax payment and its deposit. The result of this delay in depositing payments inevitably costs the State in terms of lost interest. In addition, the process for handling many of the return documents themselves is a manual, time consuming process, since they are shunted among several floors in the Department through the various stages in the processing procedure.

The Task Force makes the following recommendations:

- . Returns and payments for all taxes (other than those for which a lock box is used) should be received by a single office within the Department.
- . Procedures should be developed and automated equipment acquired which separate checks from returns, stamp both the return and the check with an identical identification number, deposit the checks within 24 hours of receipt, and microfilm the return.
- . Depository bank accounts should be established at all Multistate and District Office locations and daily deposits made of all amounts collected by those offices.
- . The motor vehicle excise tax and the taxes on boats, recreational vehicles, airplanes and off-road vehicles, like other sales and excise taxes, should be collected by the selling dealers and remitted to DOR every 15 days if sales exceed a specified amount and in all events within 30 days.

The Department has made substantial progress in its cash management procedures in recent years. The lock box system for estimated and withheld income taxes appears to be working well, although the performance of the depository bank with respect to its receipt and deposit time standards should be periodically reviewed and evaluated as a prudent contract oversight matter. The time lag between receipt and deposit of final individual income tax payments has been significantly reduced. In fiscal 1983, the Department cut the processing time in half -- a noteworthy achievement. Nonetheless, further improvements are possible. The Task Force consulting groups estimate that over \$2 million in increased interest could be earned for the State each year if the above recommendations are implemented.

The Task Force also believes that the current practice whereby the Registry of Motor Vehicles collects the motor vehicle excise tax should be terminated. There is no reason why this tax should not be collected and remitted by new and used car dealers just as all retail sellers do for other items subject to sales or excise tax. The selling dealer could give the purchaser a coded form certifying that the tax had been paid. The purchaser would then simply present the form to the Registry. This procedure is followed in a number of other states.* The Registry is ill-equipped to serve as a tax collection agency; indeed that function is totally unrelated to its central mission. Several of its offices do not even have cash registers. Quite apart from the lost interest income to the State, the potential for abuse is cause for real concern. While cash registers are being installed in some offices and have been requested for all offices, this action should be viewed as only a short-term and partial response to the problem.

Similar collection and cash management problems exist with respect to the taxes on boats, recreational vehicles, airplanes and off-road vehicles. Collection of these taxes likewise should be removed from the regulatory agencies involved and placed in DOR under the procedures applicable to the general sales tax.

To insure that there is not an undue lag in remittances to DOR, dealers should be required to remit the taxes every 15 days if sales exceed a specified amount for the period. In all other cases, taxes should be remitted every 30 days.

Microfilming all returns immediately upon receipt will produce a number of benefits. It will ultimately reduce the huge storage requirements now involved under the present practice of retaining returns for several years. It also protects the integrity of the returns. Presently there are few checks to prevent or detect the alteration of a return after it has been filed. Moreover, immediate microfilming protects the Department and the taxpayer from the danger of lost returns during the time when returns are physically transferred for data collection and audit purposes.** Microfilming thus serves as an important back-up to the internal audit and security procedure discussed in Section VII. Other states have implemented the microfilming procedure we recommend and their experience can be utilized by DOR.

Our consultants estimate that the one-time cost of implementing our recommendations to be less than \$1 million and annual costs thereafter in the \$100,000 - \$200,000 range. The increased interest revenues will more than finance the investment.

* Consideration should be given to whether a procedure convenient to the individuals involved could be developed to enable DOR to collect the tax on transactions between private parties.

** In addition, as a further aid to good records management controls, we recommend that the control of all tax returns be placed in the Records Management Bureau.

C. The Storing, Distribution and Analysis of Tax Return Information

Once a taxpayer's payment has been separated from the return, the information on the return must be checked, stored, analyzed and made available for use by those responsible for audits, abatements, collections and enforcement. With enough personnel these activities can be performed manually. But DOR would require a much larger work force than it now employs to perform them well on a manual basis. Moreover, in one of the computer centers of the world, it is ironic that DOR does not have and utilize automatic systems to the maximum extent possible. This section contains recommendations to improve and expand the electronic data processing (EDP) capacity of the Department.

In the 1980's, the core of any successful large business operation is the quality and capacity of its electronic data processing system. DOR is no exception. Its ability effectively and efficiently to provide taxpayer assistance, audit returns, detect non-filers, collect accounts receivable, maintain a current and usable accounting function, conduct research necessary for informed tax policy decisions, effectively manage its financial and human resources, and insure the integrity and efficiency of its operations and personnel depends to a substantial extent on the quantity and quality of the information put into and generated out of its computer operations. In today's high technology world, a tax administration system relying on manual procedures is operating in the Dark Ages. When DOR employees apply the utmost dedication and competence to their tasks, they cannot perform effectively without adequate automated support. For example, no business today with over \$300 million in recorded accounts receivable (and with another suspected \$640 million that should be collected) would fail to have a fully automated accounts receivable system. But, except for the estate tax and partially for the automated taxes, DOR has none. A continually growing accounts receivable figure for taxes due and owing is the inevitable result.

DOR has made and is continuing to make significant advances in its data processing capacity. The individual income tax and the withholding, sales, meals and room occupancy taxes are fully automated; the corporate income tax is in the process of being placed on the computer. The Estate Tax Bureau has implemented a fully integrated computer system for the estate tax that would serve as a model for other taxes. But all other taxes are processed manually. Moreover, the audit, collection and revenue accounting functions are entirely manual for all taxes.

In making these observations, we do not intend to focus criticism on the Division of Data Processing. It has been provided relatively limited resources given the tasks that need to be undertaken. Moreover, until recently, it apparently has been operating under the policy direction to utilize available resources only for purposes that could be demonstrated to produce enhanced revenues. No organizational structure has existed for establishing an overall EDP policy for the Department to insure that its multiple needs for automated systems are met. The EDP experts in our consulting groups reported that in their view the Division has, with its available resources, done well with those computerization projects it has undertaken.

To insure that the Department develops the EDP capacity that a modern tax administration system requires, the Task Force makes the following recommendations:

- . The Commissioner should create a policy committee at the current Deputy Commissioner level to establish EDP priorities and to formulate and oversee implementation of a five-year plan for a substantial increase in the DOR's computer capacity.
- . A primary goal of the five-year plan should be an EDP system which for each tax can perform revenue accounting, desk auditing and assessing, delinquency and refund noticing, stratified judgmental and random audit selection, case tracking, consolidation of all accounts receivable by taxpayer, management reporting, on-line retrieval of taxpayer information and microfilm/microfiche functions.
- . A microcomputer-based model should be developed which can measure potential revenues by tax, determine the revenue impact of proposed tax policy changes, and monitor actual against projected results.
- . The disaster recovery plan should be completed and information security safeguards should be evaluated and tightened as needed.

The creation of a policy committee with the requisite authority to set EDP priorities is an important first step in accelerating an orderly computerization of additional Departmental functions. Such a group can and should bring a broader vision to computer priorities than the rather restricted view of revenue generation that has prevailed until very recently. Moreover, such a group is needed because the present heavy demands on the resources of the Data Processing Division make it difficult for the Division to carry out both day-to-day line operations and long-range policy development.

All the functions of the proposed five-year EDP plan cannot and do not have to be implemented at once. In the set of recommendations set out below, we make suggestions for particular segments of the plan, such as accounts receivable tracking and revenue accounting. The important point here is that those particularized systems need to be designed and implemented with a view of their place in the overall projected system to insure that what is done in year one will be compatible with segments placed on line in year five. The proposed EDP policy committee can help insure this result.

The EDP policy committee should be given authority to determine whether the necessary systems can be developed by existing DOR resources or whether outside vendors should be employed. In addition, the policy committee should be charged with implementing some specific programs to insure the optimal operation and usability of the computer system. It should (1) see that better use is made of programmer productivity aids, (2) develop an evaluation system for the Data Processing Division which

measures actual against targeted performance for the system, (3) develop standards and procedures manuals for such items as systems design, testing and change, (4) insure that information on the use of EDP is available to end users within the Department, and (5) establish a system to measure the costs and benefits of the EDP program by user departments.

The Department is asked to provide the Governor and the legislature with revenue estimates of present tax policy and proposed changes. These estimates are now prepared manually and are accurate to a remarkable degree. Nonetheless, policymakers are seeking information of an increasingly complex nature. For example, the legislature has requested the submission of a "tax expenditure" budget to accompany the direct expenditure budget for fiscal 1985. Preparation and quantification of each item in such a tax expenditure list -- those special tax preferences that are the functional equivalents of direct spending programs -- has begun. But the work is difficult and slow because of the lack of a computerized model of the tax system and relevant economic data. Work has begun on the development of a model that can be employed for revenue estimation. That project needs to be completed at an early date.

Within the past few months, the Department has begun installation of a disaster recovery plan to ensure the security of the system in the event of fire or other destructive events. That back-up capacity is urgently needed. In addition, careful evaluation of the internal security of the computer should be undertaken. As more of the tax system is placed on the computer, it is imperative that controls be in place to prevent unauthorized access to the computer files and to guarantee the privacy of taxpayer information. This may well be an appropriate project to assign as an early priority to the new internal audit function discussed in Section VII.

D. Activities Supported by the EDP System

With the tax payments deposited and the return information placed on the computer, the next steps in the process involve checking the accuracy of the return (audit), assessing any additional taxes due, collecting accounts receivable, processing applications for abatement, and making refunds. The recommended development of a long-term EDP policy and plan for the Department will provide comprehensive and reliable support to these operations of the Department and to taxpayers -- the users of the information gathered, stored and categorized by the Data Processing Division. The following recommendations focus on specific features of the overall system for the particular line functions within the Department.

1. Audit and Assessment. The information on a tax return is subject to audit to determine if the taxpayer has correctly reported items subject to tax and paid the tax due. The audit may be a "desk audit" (conducted without an examination of the taxpayer's books and records) or a "field audit" (conducted by meeting with the taxpayer and examining the books and records underlying the return information). If the audit reveals that additional tax is due, the taxpayer receives an assessment for that amount. To improve present DOR audit and assessment procedures, we recommend:

- . The audit and assessment functions for all taxes should be combined in a single Bureau.
- . An automated audit selection program should be developed which would scan returns for high audit potential.
- . In the interim, objective audit selection standards and procedures should be developed for each tax and adherence to them should be closely monitored.

Audits of tax returns and assessment of additional taxes due constitute essentially one function--determining whether the taxpayer paid the correct amount due. Yet at that present time, that single function is spread through many offices in DOR. The result is unnecessary duplication of effort, inefficient use of resources, and excessive time required for the process to produce final results.

At the present time five different Bureaus and one Division manually audit returns to determine if additional taxes should be assessed. Each of these offices has its own and different system for auditing returns and processing assessments.

The problems created by having the audit function carried out by multiple Bureaus and by the Multistate Division are aggravated by the fact that there is too little actual coordination of audits of the same taxpayer for different types of taxes. Thus it is quite possible for a business taxpayer to be subject to different audits for income tax, for sales tax, for meals tax or withholding tax at the same or within a close period of time. It is understandable that business taxpayers feel they are being harrassed in such circumstances.

The duplication of the auditing and assessing procedures through various Bureaus and Divisions does not appear to produce significant benefits. For example, in 1982, the average dollar amount involved in each individual tax return processed by the Assessing Bureau was \$156. By comparison, the average amount of such cases processed by the Audit Bureau was \$6,676.

There appears to be little justification other than tradition for continued separation of the auditing and assessing functions and dispersal of those functions among multiple offices. Tradition is not unimportant, but more important are the gains to be realized from combining in one Bureau or Division the audit and assessment activities for all taxes and all types of taxpayers. These gains include more efficient deployment of personnel, faster action, better controls, and more expeditious service to and less irritating relations with the taxpayers. There are also revenue gains to be anticipated as the results of the above recommendations. More expeditious handling of the audit and assessment process will mean fewer cases being tolled by the three-year statute of limitations.

In addition to centralization of the audit function for all taxes in a single Bureau or Division, it is important that clearly defined audit criteria be established by DOR for each of the taxes involved. In the longer term, an automated audit selection system should be developed.

Development of the program can be deferred because DOR is making arrangements to obtain and use an increased amount of information from the IRS automated audit selection program. Nonetheless, attention must be given to the existing situation in view of the shockingly low number of returns DOR audits apart from those generated by the existing Federal Change Program (under which the IRS automatically provides DOR with changes made in a taxpayer's federal return).

The critical immediate task is to develop objective, clearly understood and consistently applied criteria for selecting cases for audit. DOR employees reported that few if any such criteria have existed. In some instances, cases reportedly were selected for audit simply by an auditor running manually through a file drawer of returns. In urging the establishment of audit selection criteria and ultimate adoption of an automated system, we do not denigrate the real skills which many DOR auditors have acquired through experience in reviewing returns. What we do urge is that those skills be enhanced by better support systems. Work has begun to implement audit criteria for the income, sales and excise taxes and we support this action.

The most compelling reason for adoption of formal audit selection criteria is public confidence in the way cases are selected. In a situation where clearly articulated criteria are not established and followed, there exists the suspicion of, and real potential for, selection or non-selection of cases for audit on political or favoritism grounds. The suspicion has been expressed to us that some taxpayers do not get audited because of political influence, while others may be audited who are in political disfavor. The lack of established audit criteria means that those suspicions can neither be confirmed nor allayed. As a result, any audit decision is suspect. Such a situation serves the interest neither of the competent and objective auditors in DOR nor the taxpaying public.

Finally, the audit system needs to integrate all taxes for each taxpayer and track the results of each audit. Implementation of such a system depends significantly on the computerization of all taxes as previously recommended. This recommendation is especially important for business taxpayers. While our recommendation may fail to persuade businesses that they are not overtaxed in Massachusetts, it at least can help assure them that the Department handles its tax affairs in a business-like manner.

2. Collections and Enforcement. Once an assessment of additional tax due is made, the amount asserted to be owed by the taxpayer is established as an account receivable. Under existing procedures, the taxpayer may be required to pay the amount before pursuing any steps to appeal the correctness of the assessment through an application for abatement. (Recommendations concerning this procedure are made in Section III.)

We believe the modernization of the Department's accounts receivable collection process is a matter of the highest priority for the Department. Our recommendations are set forth below. In addition, in this subsection we also provide recommendations with respect to steps that should be considered to increase taxpayer compliance, both in the filing of returns and the payment of taxes due.

- . A computerized accounts receivable system should be developed which would (1) include all taxes owed by a single taxpayer, (2) cross reference to refund actions, (3) segment all items by size, age, type, and location, and (4) monitor collection efforts.
- . Criteria should be established under which uncollectible accounts receivable can systematically be identified and written off and the requirement that write-offs be approved by the Appellate Tax Board should be eliminated.
- . Pending the implementation of the recommended automated system, short-term collection actions should be taken as feasible, including introduction of an automated multi-notice collection system, automation of accounts receivable systems for those taxes presently handled manually, development of a system to classify accounts receivable by size and case type and to deploy collection agents accordingly, exploration of increased use of telephone collection techniques for small accounts, and increase in the number of collection personnel.
- . Study should be undertaken of possible cross checks to records of other government units to assist in identifying non-filers and assets of delinquent taxpayers.
- . The increased enforcement efforts and penalties for non-compliance should be vigorously pursued by the Department and given widespread publicity.

One of the most serious problems facing the Department is the large and growing size of accounts receivable. The present figure is in excess of \$300 million; and the net accounts receivable figure has been rising by \$30-45 million annually in recent years. We recognize that not all of the elements that have produced these figures are negative. For example, the higher numbers may be attributable in part to more effective audits, the Department may have become more strict in declining to write off accounts receivable. Moreover, the increasing figure may have been due in part to factors outside the Department's control, such as the recession and the resulting increase in bankruptcies.

But the fundamental fact is that the present level of accounts receivable is unmanageable and, to a substantial degree, has been under-managed. The average number of accounts assigned to each tax collector is an incredible 3,000 cases per year, with the range running from 1,000 to 12,000 per person. Very little back-up is provided to the collectors in the form of classification of the receivables by type of account or size, likelihood of collectibility, aging, or management control. Nor are there uniform and automatically applied criteria for writing off accounts receivable, with the result that each agent's accounts receivable inventory is cluttered by accounts that would have been long-since written off by a private business.

The lack of a more fully automated accounts receivable system is producing a number of undesirable effects:

- The case load for each collector is unmanageably large and the collectors are not provided information and back-up support to enable them to target efforts efficiently.
- Accounts receivable for the automated taxes are maintained separately from each other and are not integrated with the non-automated taxes; as a result different collectors may be assigned to collect different taxes from the same taxpayer.
- The accounts receivable are not cross-referenced to refunds; as a result a taxpayer can obtain a refund while actually owing the State taxes.
- The Commissioner is too frequently placed in the position of having to determine whether a taxpayer will be able to remain in business if required to pay the taxes due; this problem could be alleviated by procedures which did not let the taxpayer get in the delinquent tax position to begin with.
- The Commissioner cannot effectively measure the performance of the collection force.
- Because effective tracking and management controls are not in place the (fortunately rare) dishonest collector is provided an opportunity to abuse this position.
- The procedure of issuing Certificates of Good Standing for business is a time-consuming and potentially inaccurate process.
- It is difficult to implement compliance projects, such as suspension of licenses to conduct trade for nonpayment of taxes, if the accounts receivable file is not completely current.

It has been estimated by our consultants that a fully automated accounts receivable system could be implemented within 12-24 months, although DOR officials believe the relevant time frame is 3-5 years. Regardless of which estimate is the more accurate, it is obvious that the necessary planning and development work must begin as soon as possible. Our consultants estimate that of the presently outstanding accounts receivable of over \$300 million, some \$50-75 million are probably collectible. A significant portion of that amount can be recovered within the first two years after the proposed system becomes operational. In addition to the one-time gain, annual receivables collections, it is estimated, would be increased by some \$30 million annually over pre-June 30, 1982 levels.*

* The Department's recent improvement in its collection results must be credited against the above figures. That is, some of the increased collections projected in the above figures have already taken place in fiscal 1983.

The Commissioner and the proposed EDP policy committee must determine whether the automated accounts receivable system can be designed, tested and placed on line by existing Departmental resources or whether the services of an outside vendor should be obtained. If the latter course is pursued, initial costs of around \$250,000 would be incurred. The Commissioner has advised us that the fiscal 1984 budget includes funds sufficient to fund the initial portion of the system development. Another \$1 million will be required to make it fully operational. In addition, some additional Department personnel would be required to implement the system, though to some extent that need would appear possible to meet by some redeployment of existing personnel and by authorizations made in the fiscal 1984 Budget for an increase in the number of Department employees.

We have considered carefully the suggestion that private collection agencies be employed to assist in bringing the accounts receivable backlog down as authorized by the REAP legislation. We believe it would be premature to take such a step before the program we have recommended has been designed and installed. It may well be that in a properly designed system there is a role for private collection agencies to play. But we believe that there are hazards which should be carefully considered first. There is a sensitive interplay between taxpayers and the government in the tax collection process. We are not convinced that even honest taxpayers who remain current with their tax payments would be supportive of the interposition of private collection agencies (which do have their own image problems!) in the tax collection process. Moreover, the price charged by private collection agencies will be substantial; and we do not believe that cost should be incurred until the Department has made a strong effort to improve its own collection capabilities. Finally, developing a system to categorize and assign accounts and monitor efforts of private agencies will itself take considerable time, time which we think would be better spent in designing the Department's own system.

The foregoing comments are not meant to foreclose interim steps to improve collections of accounts receivable. Some short-term measures we have recommended, such as increasing the number of personnel devoted to collection efforts, will produce immediately needed improvements and are to be encouraged. Indeed, the Department has reported a dramatic increase in collections in fiscal 1983. These increased efforts and results are to be strongly commended.

We also note that the Department has instituted a number of imaginative collection efforts. For example, a project to cross check Medicare-vendor payments with State tax returns has been initiated, as has a refund diversion program from delinquent fathers of AFDC children. Similarly, checks have been run against tapes from other governmental offices to obtain names of registered corporations and individual vendors to detect non-filing or delinquent taxpayers. Similar initiatives employed by other states should be explored for adaption to Massachusetts conditions, e.g., cross checks between high value residences and boats against tax return records. In addition, more vigorous enforcement measures, such as property seizures, have been instituted. The attendant publicity to these efforts should produce increased compliance.

The recently enacted Revenue Enforcement and Protection Plan also provides additional compliance tools such as an increased scale of penalties for noncompliance. Effective application of the penalties, widely publicized, should have an important deterrent effect on those who are tempted to avoid their taxpaying responsibilities. We emphasize, however, that it may not be possible to implement the project to suspend trade or professional licenses in a fair or effective manner until the accounts receivable system has been improved as we have recommended.

3. Abatements and Refunds. As noted above, if DOR makes an assessment for additional taxes due, the taxpayer may be required to pay the tax and then file an application for abatement of the additional tax assessed. If the application is approved in whole or in part, a refund check is issued. We make the following recommendations to improve the abatement and refund process:

- . Abatement and refund procedures should be fully automated for all taxes.
- . The review process for issuing refunds should be amended to provide that all refunds less than \$100,000 be approved solely by a special DOR review panel; only refunds in excess of \$100,000 should require review by the Comptroller, the Executive Council and the Treasurer.

Under existing DOR procedures, several different offices handle abatements depending on the type of tax involved, each of which maintains its own distinct numbering and processing system, and each abatement must clear multiple bureaus. Moreover, in the case of abatements of the non-automated taxes, no check can efficiently be made against the accounts receivable file for the taxpayer to see if other taxes are owed by the taxpayer. Even in the case of automated taxes, there is no system of tracking an abatement. The results of this complex and time-consuming system is that it takes on the average one full year to process an abatement and much longer delays have been reported to us; tax practitioners asserted that they have had abatement applications in process for years. Inordinate delays in the refund process encourage taxpayers to resolve all issues in their own favor and undermine the self-assessment process.

Reduced state interest costs as well as better taxpayer services lie behind our proposals with respect to issuing refunds. While refunds of the automated taxes are handled by Data Processing, all other refunds (some 75,000 per year) are processed manually. The Department has taken steps to reduce significantly the time required for issuance of refund checks for the personal income tax and that action is to be commended. But automation of the refund process for all taxes is necessary. Interest costs on refunds in 1982 totalled \$5 million and some portion of this amount accrued during the 8-10 weeks required to process refunds in DOR. Moreover, the present review process required by the Constitution and by statute to obtain approval of all refunds, no matter how small, contributed to the interest cost. At the present, all refunds must be approved by the Comptroller, the Executive Council and the Treasurer. This process normally takes around two weeks. Nothing appears to be gained by this delay since we are advised that approval is virtually never withheld.

Accordingly, to reduce interest costs to the State and to improve taxpayer service, we recommend that the present review process be retained only for refunds in excess of \$100,000. Limiting State-level review to these large cases will enable the offices involved to exercise some meaningful review activities. All refunds involving less than \$100,000 should be reviewed within DOR at appropriate levels depending on the amount involved, e.g., only those over \$5,000 would require approval at the Deputy Commissioner level.

4. Revenue Accounting. In broad terms, the Revenue Accounting Bureau is the office responsible for accumulating all data concerning revenue transactions of DOR and presenting that data in operating and financial statements. In the preceding portions of this Section, we have made recommendations for increased automation and improvement of important aspects of the revenue accounting function. In addition, revenue accounting should provide the Commissioner with information by which the resources of the Department can be better utilized. Accordingly, we recommend:

- . The automated revenue accounting function should be designed to provide the Commissioner and management level personnel with sophisticated management information for optimal deployment of Department resources.

Our recommendations in this Section envision the complete automation of the revenue accounting function of the Department. Good revenue accounting not only should provide quick and more efficient abatement, refund, and accounts receivable collection procedures, but also information by which the Commissioner and Departmental managers can allocate and deploy resources to achieve optimal results from available resources. At the present time, it is all the personnel in the Revenue Accounting Bureau can do just to complete the manual ledger entries and other manual processes for a given year in that year. That effort is a truly Sisyphean one. There is neither the time nor the capacity to generate managerial information for the Commissioner. Yet one of the fundamental objectives of a good accounting system is to measure how well a particular function or activity is being conducted.

We therefore recommend that the proposed EDP policy committee, in implementing the changes suggested in this Section, insure that the systems developed in the early years of the five year plan be adaptable to and capable of generating the full range of management information of which a sophisticated automated accounting system is capable.

III. TAXPAYER ASSISTANCE AND DISPUTE RESOLUTION

Many of the recommendations advanced in preceding sections would, we believe, significantly increase the level of service provided by the Department to taxpayers. It is useful at this point, however, to discuss recommendations that are specifically intended to achieve that objective. Our recommendations in this area are in three categories: those primarily designed to provide increased assistance to the general taxpaying public, those targeted primarily at taxpayers with professional tax advisors, and dispute resolution procedures.

A. Assistance to the General Taxpaying Public

In this category, the Task Force recommends:

- . A unit should be created within the Department whose sole responsibility is the continuing revision and simplification of all tax forms.
- . Legislation should be adopted providing that all changes in Federal income and estate tax laws are automatically adopted by Massachusetts unless the legislature disapproves the adoption of any of such changes.
- . A Problem Resolution Office (ombudsman) should be implemented to which and through which all inquiries concerning a special problem being experienced by a particular taxpayer should be required to be directed; all contacts by any person other than the taxpayer (which are not initiated by the Department) with respect to the tax status or liability of any taxpayer should be logged; participation in the violation of these requirements by any employee should constitute a breach of the Code of Conduct.
- . Adequate computer back up and enhanced training programs should be provided for the Taxpayer Assistance Bureau to enable it better to respond directly to taxpayer inquiries.

A complaint expressed by virtually every taxpayer group with which we consulted was that the Massachusetts tax return forms are too complex and the instructions accompanying them are not understandable. In addition, a significant portion of the taxpaying public is made up of persons for whom English is neither their first nor primary language. The Department has recognized both problems. Work is underway to produce a greatly simplified short form income tax return which can be used by large numbers of taxpayers. Efforts have likewise begun to identify ways to serve better the needs of the large Spanish-speaking population in Massachusetts. These efforts should be encouraged and supported.

The problem of the complexity and clarity of the tax forms needs to be addressed in an ongoing fashion. A new unit responsible solely for the continued improvement and revision of all tax forms should be established. Its assigned mission should be simplification of all forms and clearer presentation of instructions and information to taxpayers. We do not believe this unit need entail significantly increased costs.

Existing Departmental personnel who are interested in and have some skills for the work should be available. In addition, the substantial ongoing work of the IRS in this area should be tapped. Finally, we are confident that tax professionals would be delighted to serve on a pro bono basis to assist the unit in developing simpler and clearer forms and instructions.

It must also be recognized that under present legislation there is a point beyond which forms simplification and clarification cannot go. This phenomenon occurs because of the fact that Massachusetts adopts Federal tax legislative changes only in part and adoption often lags by several years the date of Federal enactment (the Massachusetts estate tax law is now the pre-1977 Federal estate tax law, editions of which are rumored soon to be going out of print!). These deviations and the frequently great difficulty in finding what a no-longer effective Federal rule may have been are sources of considerable deliberate and unintentional non-compliance. (The recent REAP legislation did contain some needed updates.)

Obviously, the greatest simplification in income tax forms and administration would be achieved if Massachusetts simply piggy-backed the Federal system. Many persons suggested this course of action to us. But such a proposal obviously raises policy issues that are beyond the scope of this Task Force's inquiry. We do, however, propose a more modest step which would at least solve the problem created by lags in adoption of Federal changes. We recommend that the present procedure whereby the legislature must affirmatively adopt a Federal change before it can become law be reversed. That is, any Federal change would automatically be part of the Massachusetts law unless the legislature specifically did not adopt a particular Federal change. Such a change would continue the present legislative assessment of the policy and revenue implications of any Federal change. Where appropriate the legislature would determine not to adopt the Federal changes if these considerations were adverse to Massachusetts interests. But the many Federal changes that are revenue and policy neutral for Massachusetts could automatically become law, with resulting simplification for taxpayers. This system is presently employed in New York. We emphasize that our recommendation is made solely from the standpoint of improving tax administration; we recognize, however, that other major policy concerns must be considered in evaluating the recommendation.

In any organization as complex as the DOR, there are bound to occur problems and misunderstandings in dealing with particular taxpayers. The IRS has instituted a Problem Resolution Office, which serves an ombudsman function, to deal with this very real problem and enable taxpayers to circumvent seemingly intractable bureaucratic difficulties. The Commissioner has established a Problem Resolution Office for DOR and we recommend that this office be modelled on the IRS system. In addition, we recommend that all contacts initiated from any source other than the taxpayer concerning the treatment of a particular taxpayer's problem be channeled through this Office. This procedure will help insure that legitimate concerns that third parties may have with respect to a taxpayer's affairs are handled professionally and expeditiously and that consistent treatment is given to all such concerns. A similar procedure is followed by the IRS. All such contacts should be logged so that, for

example, recurring problems can be identified and corrected. Our recommended procedure will also support the internal integrity concerns addressed in Section VII. Accordingly, we also recommend that the procedure be reinforced by the proposed Code of Conduct; an employee's participation in the violation of the procedures regarding third party contacts should constitute a breach of the Code.

The Task Force received reports of public dissatisfaction with the Department's taxpayer assistance operation. Some causes of concern, such as the inability of the DOR person responding to answer adequately a taxpayer's inquiry, may be due to inadequate training in substantive rules and procedures. It does appear that present procedures too often consist merely of routing questions to other Bureaus. Training programs should be developed for taxpayer assistance personnel to enable them to deal effectively and expeditiously with taxpayer inquiries, especially those involving relatively routine matters.

It must be recognized by the public, however, that a great deal of the inability of taxpayer assistance personnel to respond quickly and accurately to questions lies in the inadequacy of the computer system discussed in Section II. If all taxpayer records were computerized and maintained on a current basis, taxpayer assistance personnel would be able to respond to taxpayer inquiries about their own transactions with much greater speed and accuracy. At the present, answers to too many questions require a time consuming and laborious manual search for the information.

B. Assistance to Taxpayers Represented by Professional Tax Advisors

There are certain aspects of the Department's taxpayer services that primarily involve its relationships with tax professionals. These areas involve the issuance of rulings and regulations governing technical tax provisions and procedures. The Task Force makes the following recommendations:

- . The issuance of rulings for all taxes to particular taxpayers should be the responsibility of the Rulings and Regulations Bureau.
- . Rulings should be made public, with appropriate taxpayer identification material omitted; published rulings should be classified between those which are binding on the Department in dealing with all taxpayers on issues covered by the ruling and those which are to have no precedential force.
- . Issuance of Regulations for all taxes should be the responsibility of the Rulings and Regulations Bureau.
- . Working with tax professionals, the Bureau should establish a list of needed regulations projects, establish priorities, and issue high priority regulations as soon as possible.

Rulings are issued by the Department upon the request of a taxpayer for the Department's views as to the tax consequences of a particular transaction. The rulings process is beneficial to taxpayers and the DOR alike. The taxpayer receiving the ruling is provided certainty with respect to the transaction; DOR is given an early opportunity to evaluate and influence an issue without the necessity of awaiting the litigation process.

Tax professionals have advised us that the rulings process has greatly improved in recent years. More rulings are being issued each year and are received on a timely basis. Two changes would continue this positive development. First, the responsibility for issuing rulings for all taxes and types of taxpayers should be centralized in the Rulings and Regulations Bureau. At the present, the different bureaus responsible for different taxes issue their own rulings. As a result, it is difficult to insure that consistent ruling positions are being maintained throughout the Department. Moreover, the failure to centralize the rulings process has apparently resulted in personnel in one Bureau being unaware of rulings issued by another. This conveys a lack of professionalism to taxpayers and their advisors.

All rulings issued by the Bureau should be made public in a form readily available to tax professionals. Moreover, a program of dissemination of the rulings throughout the Department should be undertaken. Equally important, the Commissioner should establish a two-tier classification system for published rulings. The first category would include rulings which represent DOR's position on an issue and will be followed by DOR in dealing with all taxpayers on issues covered by the ruling. The second category would include rulings which have no precedential effect, for example, because they are factual in nature.

There likewise should be increased emphasis on issuing regulations for all taxes and types of taxpayers by the Rulings and Regulations Bureau. The Department has a responsibility to the public to issue regulations on important tax issues. In addition, issuances of regulations can be expected to reduce noncompliance by those who are encouraged to "run for luck" in the absence of regulations covering their situation. The taxpaying public is entitled to prompt and definite regulations which are binding on the taxpayer and DOR personnel alike. The present situation allows individual bureaus to proceed on an ad hoc and even ad hominem basis. The result is that tax professionals in the private sector too often view the Department as arbitrary and ungoverned by legal principles. This perception of tax professionals is in turn transmitted to their clients, especially business taxpayers, feeding the perception that Massachusetts taxes are not fairly administered (in addition to being too high!). The result is considerable damage to the public image of DOR and to the State's reputation in the business community generally.

We realize that the legal staff of the Rulings and Regulations Bureau is small. We believe that the private sector will be more than willing to offer assistance in establishing priorities for needed regulations and in responding with comments to proposed regulations as an aid to the Bureau.

With both the rulings and regulations, regular education programs should be held for DOR personnel to insure that they are made aware of and follow Departmental policies.

C. Dispute Resolution Process

The Task Force recommends continued improvement of procedures for resolving disputes over the fact or amount of an asserted tax deficiency:

- . The collection of assessed individual and estate taxes should be stayed (subject to interest charges) until the taxpayer has exhausted all administrative appeals within DOR; the Commissioner, however, should have powers, such as to make jeopardy assessments, to effect or secure collection if collection of the tax is imperiled.
- . The Commissioner should in appropriate cases request the Attorney General to designate Department attorneys as Special Attorneys-General to represent the Department in civil tax litigation before the Supreme Judicial Court.
- . Overpayments and underpayments of all taxes (and related interest charges) as determined on audit should be offset against each other for the period covered by the audit.

As discussed in Section II, once a tax is assessed it may be collected even though the taxpayer believes that the assessment was erroneous and has filed an application for abatement. In effect, a taxpayer can be required to pay the tax before an appeal from the assessment can be made within the Department. To some extent the problem has been mitigated by the procedure adopted by DOR under which an informal hearing can be obtained before the Appeal and Review Bureau prior to assessment. But we believe further development of this procedure is appropriate.

Suggestions have been advanced by various groups that Massachusetts should adopt the Federal procedure whereby taxpayers who pursue litigation in the Tax Court are not required to pay the asserted deficiency until a final determination of the dispute is made by the Court. Department officials expressed concern that the level of collections in Massachusetts might decline as taxpayers pursued litigation solely for the purpose of delaying the collection of taxes. We recommend that a middle course between these two positions be adopted. The collection of assessed taxes should be stayed until the taxpayer has exhausted all administrative appeals within the Department of Revenue. Before the taxpayer could pursue the matter in the courts, however, the assessed tax would have to be paid. If the taxpayer were ultimately successful, the amount paid would be refunded with interest.

We believe that the proposed recommendation is a sensible course for Massachusetts to pursue at the present time. The present situation in which taxes are collectible upon assessment, even though the taxpayer may have a perfectly legitimate legal ground to pursue with the Department, is unacceptable and probably counterproductive. Moreover, we are advised that Department officials, cognizant of the burdens the rule places on

taxpayers, do to some extent informally follow the procedure we have recommended. However, uniform application of the procedure is desirable to insure that all taxpayers are treated alike. With the newly enacted 18% interest charges on underpayments, we do not believe taxpayers will be likely to use the appeals process just for delay. Moreover, we believe our proposal will encourage expeditious resolution of appeals.

In addition, we recommend that the existing appeals procedure be reviewed and streamlined to eliminate unnecessary delays and that formal appeal procedures be published. Settlement of disputed matters in the appeals process is to be encouraged. If the Department believes that it does not possess the authority to settle cases on the basis of hazards of litigation, it should seek corrective legislation.

As a further backstop to the change proposed, the Commissioner should be empowered to assert jeopardy assessments and collect the tax at any time if, for example, the circumstances indicate that ultimate collection of the tax may be imperiled because the taxpayer will leave the jurisdiction. Other protective actions may also be appropriate.

We also recommend that in appropriate cases the Commissioner seek from the Attorney General the designation of legal counsel in the Department of Revenue as Special Attorneys General so that they may represent the Department in civil tax litigation before the Supreme Judicial Court. Such a step will help insure that litigation policy is consistent with the Department's rulings and regulations policy. Moreover, we believe that the opportunity to obtain appellate litigation experience, as well as that in rulings and regulations, would make service in the Department more attractive to young lawyers.

Under present legislation, tax liabilities are determined on a period-by-period basis. As a result, a tax audit covering several tax periods may involve a final determination that in some periods covered by the audit the taxpayer paid too little in tax and in others the taxpayer paid too much. Existing legislation does not permit the overpayments and underpayments to be netted with a single liability figure determined for the period covered by the audit, either within a given tax or among different taxes. Instead, taxpayers must pay the liabilities for those periods in which additional taxes are found due and must pay and seek a refund of the excess taxes for those periods in which they paid the tax. Moreover, a deficiency in one tax cannot be offset against an overpayment of a different tax. This procedure seems wasteful and time consuming and remedial legislation should be adopted.

IV. MANAGEMENT OF RESOURCES AND ORGANIZATIONAL STRUCTURE

A. Management of Resources

The Department of Revenue has an annual budget of about \$42 million. The Management Resources Office, formerly the Budget Bureau, has the responsibility for preparing the DOR budget and maintaining a record of appropriations, expenditures and budgets. The Management Resources Office also reconciles its accounts with those of the State Comptroller.

To improve the capability of the Department to manage its resources, the Task Force recommends:

- . The process of preparing annual Departmental budgets should be revised to require preparation of a budget by each Bureau, which should then be held responsible for maintaining expenditures within its approved levels.
- . The accounting records of the Management Resources Office should be computerized.
- . Formal budget training programs should be established for Deputy Commissioners and Bureau Chiefs.
- . A computerized system of activity codes which permits budget requests to be compared to spending levels should be developed to provide management with the tools to make effective allocations of resources.

At the present time, the Management Resources Office prepares the Department's annual budget without any significant consultation with or input from other Deputy Commissioners or Bureau Chiefs. Budgets are apparently prepared largely by reference to the prior year's budget rather than to actual or changing needs of any particular function within the Department. The result is that Deputy Commissioners and Bureau Chiefs have no responsibility for or any way to control expenditures within their particular area of responsibility. Under these circumstances, it is difficult if not impossible for the Commissioner, the Deputy Commissioners, or the Bureau Chiefs to exercise effective planning, management control or reallocation of resources. There is no way of knowing whether a particular bureau is cost-effective or whether it achieves a reasonable cost-benefit ratio in its operations.

In order to achieve the objective of providing necessary management information to Deputy Commissioners and Bureau Chiefs, it will be necessary to automate the accounting records of the Management Resources Office. At the present time, the Management Resources Office maintains its accounting records entirely manually. These manual records do not provide essential planning data or information to help control Department costs or reallocate Departmental resources. As with the Revenue Accounting Bureau personnel in the Management Resources Office spend almost all of their time manually keeping records rather than analyzing the information in the records and providing it in a useable fashion to the Commissioner and other responsible officials.

Because accounting procedures are entirely manual, the Management Resources Office does not have any ability to analyze expenditure patterns and implement appropriate cost reduction programs except again through the most laborious manual accumulation of data and preparation of analyses. Development of computerized activity codes for distinct activities within the Department would permit monitoring and analysis of costs and benefits by function. A better allocation of resources could then be achieved.

We emphasize that the purpose of our recommendation with respect to computerization of the Department's budgetary system is not intended to substitute one method of handling accounts for another. The problem facing the Department is not how to account for the \$42 million it expends. Rather, the problem facing the Department is whether the \$42 million could be expended in such a way that more in revenues could be collected for the \$42 million expended than the \$4.6 billion as at present. In short, increased productivity is the objective underlying our recommendation. Given present manual accounting techniques and the present method of creating the Department's budget, the chances for achieving productivity gains appear minimal.

The proposed EDP Policy Committee needs to determine whether the Department's own resources permit it to develop the automated systems necessary to implement the above recommendations or whether an external consultant should be employed for this purpose. The system ultimately developed must be designed so that it will satisfy the record keeping requirements specified by the State Comptroller and will also interact properly with records required by the Secretary of Administration and Finance.

Because Deputy Commissioners and Bureau Chiefs have not been involved in the budget process heretofore, it will be necessary that budget training programs be conducted to give these officials the necessary analytic tools required for proper budget development.

B. Organizational Structure

The Task Force recommends:

- . The organization of the Department along functional lines, rather than by type of tax, should be continued as expeditiously as possible with the objective of completing the reorganization within five years.

Throughout this Report, we have emphasized the desirability of functional organization of the Department. In 1978, the conversion of the Department from an organizational structure based on the type of tax involved to one based on functional activities was begun. We strongly recommend that the evolution of that development be continued and reinforced. As we have noted in preceding sections of this Report, the present organization, which is partially on a functional basis and partially on a type of tax basis, inevitably produces inefficiencies, inconsistent handling of taxpayers and duplication of effort. Moreover, when the same function is scattered through five or six different bureaus

and divisions, it becomes quite difficult to exercise effective management control over the function.

Any reorganizational plan must, of course, be sensitive to the needs and skills of existing personnel. We do not recommend reorganization for the sake of a cleaner organizational chart. It may well be that the Commissioner will find it appropriate to delay integration of some presently separate operations, whereas others may be combined more quickly.

For this reason, we do not recommend any particular form of organization chart that should be adopted. Our various consultants have suggested organizational changes to the Commissioner for his consideration. From the standpoint of the Task Force, the important point of our recommendation is not to urge any particular organizational scheme on the Commissioner, but instead to urge that he continue to move as expeditiously as possible to complete the evolution of the organizational structure of the Department along functional lines. We would hope that this task could be largely completed by the end of our proposed five year plan for revitalization of the Department.

It is crucial in the ongoing reorganization of DOR that the capacity for long-range planning be expanded. The Department has requested creation of a new position, First Deputy Commissioner for Management and Systems Development, which is intended to carry out strategic planning, project management, and in-house technical and consulting assistance to line operations of the Department. We support the creation of this office and, indeed, believe that its effective staffing is essential to implementing the recommendations made by the Task Force.

V. LOCAL SERVICES

A. Introduction

Three developments in recent years have dramatically increased the importance of the role of the Division of Local Services:

- The court-mandated requirement that all cities and towns employ and maintain 100% valuations for property tax purposes.
- Proposition 2½.
- Commitments to the transfer of substantial additional revenues from the state to cities and towns.

The Division has had and will continue to have a critical responsibility to assist cities and towns to respond efficiently and effectively to these initiatives.

The fundamental recommendations of the Task Force are (1) there needs to be developed a comprehensive program at the state level for carrying out its responsibilities to cities and towns and (2) substantially modernized and increased resources must be devoted to the Division to enable it effectively to implement that program. The major components of a comprehensive state program to assist cities and towns in the coming years should include:

- The commitment of expanded technological and human resources to enable cities and towns to maintain 100% valuations on a current -- ideally, annual -- basis.
- The implementation of computer-driven data systems and technical assistance to enable officials of cities and towns, individual citizens, and the state to evaluate, compare and, when necessary, improve local government performance in particular areas.
- Implementation of an effective system to audit the financial performance of cities and towns on a regular and uniform basis.

To implement the above programs, the Task Force makes four major recommendations:

- . The Department should institute a computer assisted mass appraisal system (CAMA).
- . The Department should provide increased technical assistance to local government units through more sophisticated technology, expanded management consulting services, appraisal services in valuing complex properties, and aid in converting their financial reporting systems to the Uniform Municipal Accounting System.

- . All local government units should be required to obtain audits on a regular basis.
- . The Division of Local Services should be provided increased personnel and technological support to carry out Task Force recommendations.

B. Property Value Assessments and Certification

Cities and towns are required by State law to assess property values on a full and fair cash value basis. Those assessments must be updated every two years. The Commissioner of Revenue is required to certify triannually whether the locally assessed property values are in compliance with the legal standard and to enforce those standards in instances where cities and towns fail to satisfy them.

At the present time, both the local assessment and state certification processes are largely manual, expensive, lengthy, time-consuming and frequently frustrating processes for government officials and taxpayers alike. Implementation of a CAMA system would alleviate these problems significantly and provide substantial cost savings to cities and towns.

In a CAMA system, current assessments for each property are placed in the computer. The computer program contains multiple factors that affect property valuations as, for example, comparable sales. These factors can be updated annually and revised current valuations can be provided on a timely basis to local assessors. A number of other states have already successfully implemented CAMA systems. Massachusetts lags in modernizing its property assessment system and this failure is producing multiple adverse effects.

A properly constructed CAMA system would produce a number of benefits. First, under Proposition 2½, it is critical for city and town officials to have up-to-date valuations. Yet the current system, which largely requires as it does on-site inspections, is costly and time consuming. A Task Force consulting group estimated that each full valuation costs an average of \$35 per parcel and \$5-10 per parcel for each subsequent update. CAMA can reduce the costs of the subsequent updates to an estimated \$1-2 per parcel, for a total saving of between \$7 and 14 million dollars to the cities and towns for every update. Given the estimate of a \$1 million total cost to implement CAMA, installation of the system is highly cost effective. Moreover, without CAMA, it will probably be impossible for cities and towns to comply with the mandated revaluations.

Moreover, CAMA would enable the Division of Local Services to perform its certification review in a much more efficient and timely manner. This should reduce the present delays experienced by cities and towns in obtaining the certifications they require to establish property tax rates.

Finally, CAMA should provide taxpayers with much greater assurance of the impartiality and objectivity of the property valuation process. This in turn could lead to fewer disputes with local assessors over property values. A spillover positive effect at the State level would be a reduction in the number of valuation cases taken to the Appellate Tax Board.

We are gratified to note that the Fiscal 1984 Budget included funds to begin the development of a CAMA system. It is imperative that the necessary funds be provided to the Department of Revenue to implement the CAMA system as soon as possible. The utility of CAMA obviously depends on the quality of the initial property values placed in it. CAMA cannot be implemented overnight. And virtually all communities will have completed full revaluation in the 1981-1984 period. If there is any significant delay in bringing the CAMA system in line, these valuations will become obsolete and another round of costly revaluations would be required. Careful study of the available techniques will be required to select the best approach for Massachusetts, with the full participation and input of local assessors who will be major users of the system. A decision must also be made whether the system can be developed internally with existing DOR resources or whether an outside vendor should be employed. The system adopted must be tested and training for service users and providers must be completed. DOR personnel have already completed some of the preliminary analysis required. But realistically, at least two years will be required to put CAMA fully in place. It is vital that the necessary budgetary resources be made available to the Department to pursue the necessary implementation steps preferably in the first supplemental appropriations bill for fiscal 1984.

C. Technical Assistance

There are two principal thrusts to the Task Force recommendation that the Department provide increased technical assistance to local government units.

The first is the establishment of a computerized municipal data bank (MDB). At the present time, each local accounting officer submits to the Department a lengthy and manually prepared document setting forth the community's receipts and payments for the fiscal year by various categories. Potentially, the information contained in these documents could provide extremely useful comparative data for local governments. The present Schedule A is, however, outdated and the information obtained cannot reliably be used for comparative purposes. Moreover, since any comparisons that could be made would have to be manually prepared, none can be made for all practical purposes. Local government officials also complain that information they do receive back from the Department is confusing and unhelpful.

Installation of a computerized MDB can greatly improve the quality and usability of information for use by local officials. Similarly, the MDB would provide voters in each community with readily obtainable information by which they could check the effectiveness and efficiency of their own officials in various governmental functions such as schools,

garbage disposal, street maintenance and the like. Finally, MDB would provide the State with data to evaluate the effectiveness with which local government units employ funds provided by the State for items such as enhanced anti-crime initiatives.

The Task Force commends the Department for taking steps to implement an MDB. Work is well along on the project and vitally needed information should be available within the next 1½ to 2 years.

The second component of an expanded technical assistance program is to increase the capacity of the Department to provide management consulting services to local governments. These services are badly needed by many cities and towns that seek to adjust to the strictures imposed by Proposition 2½. For example, the valuation of complex types of properties presents difficult conceptual and practical issues. Such properties include, for example, those owned by utilities, by various types of industrial and commercial concerns, and large holdings which are sold infrequently. Introduction of CAMA, as recommended above, will not solve these problems since, in the present state of the art, that system is effective primarily for the more routine types of property holdings, such as residences and vacant land. Cities and towns need assistance in working out the problems of valuing the complex properties and the Department needs to develop an expanded capability to provide it.

Similarly, Proposition 2½ has made it mandatory for cities and towns to adopt modern and sophisticated cash management techniques, to develop effective methods for reducing the size of, while at the same time making more efficient, particularized functions such as police or fire protection forces.

Finally, it is important that the Department encourage and assist local government units to implement the new Uniform Municipal Accounting System. This action is needed to improve the quality of financial reporting and to relieve pressure on credit ratings.

The Division of Local Services has recognized its responsibilities in these areas and has increased its technical assistance and training programs for local governments. But the Task Force believes more resources are needed to perform this vital function. During a period in which dramatically increased responsibilities have been placed on the Division, its authorized personnel have actually been reduced. This trend needs to be reversed.

D. Audits of Local Government Units

It is perhaps not widely known that the Commissioner of Revenue is the chief auditor for local government units. He performs a function in this respect analogous to that of the State Auditor for state level agencies and departments. There are 535 separate cities, towns, counties and special districts in the Commonwealth which collectively spend in excess of \$7 billion annually -- an amount virtually as large as the budget for State government. It is the Department's responsibility,

largely through the Bureau of Accounts, to oversee the financial management and accounting practices of all these units, to insure their integrity, to bring those practices into conformity with modern municipal accounting standards, and to provide technical assistance to enable the local units to stay current with legislative developments.

The State remits to cities and towns some \$2.1 billion annually -- 30% of the entire State budget. The Governor's commitment to return to the cities and towns 40% of increased revenues at the state level means that this figure will rise by an estimated \$150 million per year. Obviously, revenues of this magnitude require that the cities and towns use advanced accounting practices and that those practices be regularly audited under generally accepted accounting principles.

At the present time, only cities and towns which receive federal revenue sharing funds in excess of \$25,000 per year are required to have their accounts audited. And these audits are mandated only once each three years. According to Department records, some 50 communities are not subject to any audit requirement at all; 34 communities have not had an audit in the past five years. The Task Force believes that this situation is unacceptable in light of the mandate of Proposition 2½ to require more efficient expenditure of public funds and in light of the increasing state tax resources for which the cities and towns are being given responsibility.

Accordingly, the Task Force recommends that periodic audits be required of all local government units in the Commonwealth. It is not necessary for every unit to be audited every year. We recommend that categories be established so that the frequency of required audits is determined by some objective standard such as, for example, annual gross receipts. As an example, units with annual gross receipts in excess of \$20 million could be required to have annual audits, those with receipts between \$5 and \$20 million could be required to have biannual audits, and those with receipts less than \$5 million would be required to have audits once every three years. Other classifications may be found to be more appropriate. But the Task Force believes that the principle of required, periodic audits needs to be implemented.

The issues then arise as to who will conduct the audits and how they will be paid for. At the present time the Bureau of Accounts, at the request of local government units, audits some 70-80 units per year, or about 40% of the total units over a three year cycle (only about 25% of cities and towns, however). Private accounting firms conduct the balance. A Task Force consulting group recommended that the Bureau of Accounts, because of its limited staff, eliminate its management audit function and confine itself to so-called "fraud" audits, i.e., those intended to detect wrongdoing.

The Task Force, upon consideration of the consulting report and advice from other sources, has decided that on balance it is preferable to retain management audit capacity within the Bureau of Accounts. In the first place, present experience indicates that a number of cities and towns prefer to have their audits conducted by the Bureau. Second, we are not sure that all local units could afford the cost of private sector audits. Third, if the Division of Local Services is to develop

qualified management consulting teams, as recommended above, it is essential that some members of those teams have audit experience. Finally, a certain amount of competition between public and private sector auditing resources may produce cost savings to the cities and towns. Accordingly, we recommend that the Bureau of Accounts retain its capacity to conduct management audits at about the present number and expand its capacity to conduct fraud audits.

E. Increased Technical and Personnel Resources

A Task Force consulting group recommended that the Division of Local Services be provided modern automated support systems such as word processors, and/or micro computers, photocopying equipment, and other modern office equipment. The Task Force strongly supports this recommendation. Local government officials have expressed their concern to us over the undue delays they experience in receiving needed responses from the Division. This very real problem could be significantly alleviated by extensive automation in the Division. As our consultant's reports pointed out, expenditures for the needed equipment will more than be paid for in increased efficiency and better service to cities and towns.

We believe that the package of Task Force recommendations could be implemented at a net cost of approximately \$3 million. It seems entirely appropriate to the Task Force that this cost be paid out of the \$150 million annual increase scheduled for city and town support.

Finally, the Division has developed a draft of a "Master Plan" to meet its responsibilities. We urge that the draft be given public exposure so that all those concerned with the financial structures of our local government units can have an input. When that plan is finalized, it should be given support by the Governor and the legislature. The services needed by local government units are now greater in number and much more complex than even five years ago. Uniform accounting systems must be implemented, difficult management resources problems must be resolved, more complex and more frequent property valuations must be undertaken, improved cash management procedures must be implemented. The Division is being called upon to provide expanded and more sophisticated technical assistance in these and other areas. Yet its resources to meet these needs have actually been reduced in recent years. This trend needs to be reversed.

VI. HUMAN RESOURCES MANAGEMENT

A. Introduction

The preceding sections of this Report have been directed primarily to systems issues within the Department. While we regard implementation of our systematic recommendations as important, we are mindful that no organization is any better than the people who run it. Good systems do not guarantee good human performance, but inadequate human resources can guarantee the poor performance of the best designed system. Accordingly, in this section we turn to a consideration of the many facets of personnel practices and procedures within DOR.

At the outset, we should note some seemingly contradictory reports we received concerning the overall quality of employee performance within the Department. Our consulting groups spent hundreds of hours within the Department interviewing personnel, observing work operations and monitoring procedures and operations. The consulting groups were unanimous in advising us that they found the vast majority of DOR employees to be diligent, concerned with doing a good job (although, as we have noted, often laboring under archaic systems), and interested in continuing to improve the overall performance of the Department. One of the Task Force consultants who has participated in several similar studies of revenue departments in other states felt that DOR employees conscientiousness compared very favorably to other states. Employees of DOR can take considerable pride and citizens of the Commonwealth some considerable reassurance in these objective observations by the Task Force consultants.

On the other hand, we also received reports from sources outside of the Department asserting a lack of professionalism and, in some instances, even basic courtesy, by DOR employees dealing with the public. Some cited experiences with Departmental delays, inaccuracies, and inability to produce desired information, reinforcing a cliché of an inefficient bureaucracy staffed by individuals who worked as little as possible. Prior sections have noted that many of these problems can be traced to inadequate or nonexistent management and technological support systems. And, of course, there were questions of integrity raised by recent public disclosures, an issue which is taken up in Section VII.

The Task Force believes that these divergent reports in fact represent partially accurate assessments of the quality of the human resources within DOR. Observing any organization is like viewing a prism; the conclusions one draws with respect to it depend very much on the viewer's angle. Professionals observing other professionals at work have one perspective; taxpayers viewing their public servants have another; those in the legislative branch yet another; and a citizens Task Force still another.

We thus cannot provide the definitive characterization of the overall quality of Departmental employees. We do believe that there are a number of human resources management changes that can be made to improve employee pride and morale and, correlatively, the image the public has of the quality of DOR personnel. The Task Force makes the following recommendations:

- . To overcome the serious shortage of line managers, 40 Deputy Chief of Bureau positions should be created promptly; in the longer term, all Assistant Bureau Chief positions should be made non-unionized management positions.
- . Department-wide professional and career training programs must be instituted.
- . Entry-level salaries should be upgraded and early-year salary step-ups should be provided to enable the Department to compete more effectively with comparable private sector job opportunities.
- . The system of merit pay increases should be expanded.
- . A job classification program should be approved and implemented.
- . A job description project should be undertaken and a performance evaluation system implemented.
- . A formal management development and succession program should be implemented.
- . The Department should aggressively pursue affirmative action programs in new hiring.

B. Management Capacity

It does not take an MBA degree to recognize that it is impossible to manage a 1,500 person department, with a \$40-50 million budget, responsible for collecting \$4.5-\$5 billion in revenues, without managers. Yet DOR is almost in this situation. There are only 40-50 management positions in the Department. Our consultants advised that an organization of DOR's size and scope of responsibility should have 100 to 150 more persons in management positions to carry out its multiple missions effectively.

We recommend that this management gap be partially filled immediately by the authorization of 40 positions designated as Deputy Chief of Bureau. This proposal does not involve the hiring of additional employees. Rather it would involve a reallocation of existing personnel within existing budgetary resources. This action would provide badly needed middle-level line managers. The Task Force believes that most of the recommendations we have made in prior sections of this Report simply cannot be implemented without additional management resources. The present level of managerial personnel cannot cope both with the demands to continue current operations and simultaneously develop, evaluate and implement the major systemic changes recommended in prior sections of this Report. A decision not to supply needed new management is in effect a decision to consign our recommendations to that section of the State Library which already contains too many sets of unimplemented prior DOR studies.

In the longer term, the remaining management gap should be filled by reclassifying the approximately 100 Assistant Bureau Chief positions as non-union management positions. The present system, in which the Assistant Bureau Chiefs are union members, inevitably creates extraordinary pressures on them. With the best will in the world, we do not see how an individual can exercise full management prerogatives and responsibilities -- goal setting, performance monitoring and evaluation, discipline enforcement, etc. -- with respect to his or her co-workers. Some Assistant Bureau Chiefs are presently striving to carry out this difficult dual role. Ultimately, we believe, union membership and management responsibilities must be separated.

Implementation of our recommendations will require negotiations with the union and will involve difficult trade-offs. Nonetheless, we recommend that this issue be raised in the next round of negotiations with the relevant bargaining unit. It must also be recognized that the Assistant Bureau Chiefs elected to be included in the union only a few years ago, apparently largely due to the perceived inadequate level of compensation. Thus, a corollary to our recommendation will likely be the necessity to revise the management compensation structure generally.

C. Training Programs

Until recently, the responsibility of training programs was placed in the Bureau of Internal Security. This rather unusual organizational structure has resulted in virtually no centralized training programs within DOR. This lack, we believe, has contributed severely to undesirable effects, including the public's perceived lack of professionalism on the part of Departmental employees. Training programs have been conducted by some individual Bureau Chiefs, some to quite good effect. But in too many cases, the only training employees have received has been of the on-the-job type.

Another serious gap has been the lack of a program to prepare DOR employees for the required civil service examination. This has been an especially troubling problem because the exams have been administered only once every four or five years. As a result, there are presently some 40-50% of DOR employees who have not taken the exam. If they fail, they must be replaced. The resulting volatility of the work force has obvious detrimental effects on Department efficiency and employee morale.

The Department has taken actions to address the above problems. A First Deputy for Human Resources Management and Development has been appointed. Under him are Bureaus for Personnel, Training and Labor Relations. The training function has thus been centralized. A variety of needed training programs have been implemented including initial orientation sessions and entry level training for new employees, supervisory training for first line supervisors, and preparation for civil service examinations. The taxpaying public should reap the benefits of these programs through better trained and more professional Departmental employees.

D. Compensation Issues

The quality, esprit and integrity of any organization's work force cannot be disassociated from its compensation structure. The appropriate overall compensation structure of DOR employees is, of course, an ongoing concern of the executive branch, the legislature, the unions and the Department of Personnel Administration. The Task Force, however, recommends that attention be focussed on three aspects of the present system.

First, entry level pay figures should be reexamined and adjusted for some positions. Given the sensitive and complex nature of administering a large tax system, the Department needs to be able to compete effectively for the services of well-educated young people at critical entry level positions. The present \$14,000 - \$15,000 level for the tax examiners position, for example, does not appear sufficient to put DOR in the market from which it would like to draw such employees. It would appear that entry level salaries for such positions should be in the \$17,000 - \$18,000 range.

Second, at the present time a new employee can receive no pay increases at all for the first three years of employment. The obvious consequence is that after three years the employee's pay scale is seriously out of line with comparable private sector positions. As would be expected, the Department loses personnel just at the point when their experience would enable them to make significant contributions. The Task Force recommends that pay increases be authorized during the first three years to mitigate this effect.

Third, one bargaining unit has agreed to the creation of a pool for merit pay increases. This performance incentive should be bargained for with the other bargaining units within DOR. An adequate review system is needed to insure that only objective criteria are employed in awarding the merit increases.

The Task Force is unable to make any recommendations on the broader issue of the compensation levels and scale appropriate for the entire Department. Indeed, we believe this cannot be done until two steps have been taken:

1. The reclassification of all bargaining unit positions in the Department, as proposed by the Department of Personnel Administration, should be implemented.
2. A complete job evaluation study should be undertaken to determine appropriate salary levels for all positions in the Department.

These tasks are major in scope and will take time to complete. The Department should consider whether it can accomplish these essential tasks with existing resources or whether it should obtain the services of an outside consultant. Completion of the above recommendations will enable those with a responsibility for the overall DOR pay scale to implement a rational and effective compensation structure.

Moreover, the completion of these tasks hinges upon the undertaking of a much needed comprehensive human resources study to enable the Department to plan the most effective allocation of its human resources to meet the demands that will be placed on it in future years. The Department has instituted human resources planning for each Division and this action is to be commended. Department officials are also cognizant of the need for the more comprehensive study we recommend. They will need the cooperation and assistance of the DPA and the union in both the short-term and the long-term effort.

E. Career Development and Management Succession

The Task Force consultants found that virtually no career development and management succession programs have existed within the Department. There appears to have been little in the way of career ladders, career counseling, or management succession and development. Such programs are routinely employed in the private sector and are badly needed to improve both the morale and the professionalism of the Department.

The first essential element is the development of a complete job description system setting forth clearly the duties and standards for each DOR position. This is a major undertaking and can realistically be begun only after the reclassification and job evaluation study projects recommended above have been completed. It is possible that this is an area where external assistance should be obtained. An objective and well understood performance appraisal system is also a critical element for employee morale and effective career development. The Department has now eliminated the widely discredited (among Department employees) promotion board system. A completely revised performance appraisal system has been developed with the cooperation of the union. Performance appraisals will be the management responsibility of supervisors and will be conducted twice a year. The Task Force supports these actions.

Clearly delineated and objectively implemented management succession programs are essential if the Department is to be able to retain competent career employees. The problem is, of course, closely related to the paucity of management level positions in the Department, as discussed above. Nonetheless, we believe that our consulting group has made a sound recommendation in its proposal to begin a succession planning program for the management positions that do now exist. The program can be expanded as additional management level positions become available. The suggestions advanced by our consulting group for both a Departmental Fellows program and an internal rotation system for employees with high potential for management responsibilities should be given consideration by the Department. A Departmental Fellows program would attract individuals who hold a masters in public administration degree. These individuals would be assigned to three different offices within the Department on a rotating basis and then would be moved into available mid-management positions. At the same time, a middle-management development program should also be instituted for existing personnel in the Department under which selected managers could be rotated into new positions every two or three years. The purpose of this program would be to single out promising executives and train them for senior management responsibilities.

F. Affirmative Action

The Department presently has an employee population which in the aggregate is split almost equally between male and female employees. Data were not available, however, to indicate how this division was weighted according to job responsibilities. Unscientific empirical observations indicate underrepresentation of females in higher level and supervisory positions. We are advised that the Department is aware of this problem and has taken actions to begin to remedy it.

There is a serious underrepresentation of minorities in the Department. Only 8% of DOR's 1,500 employees are members of minority groups. This figure may be compared to the 20% minority population in the greater Boston area. The Department is acutely aware of its responsibilities and needs in this area and has commenced steps to try to redress the present imbalance.

G. Conclusion

Overall the Department is to be commended for its major commitment and action to improve the human resources management function. The Task Force supports the recent reorganization of the function to give it a high priority and the steps taken to improve employee relations. Our recommendations in this area are intended to encourage and support further improvements so that public respect for the Department and employee pride in the Department will both be enhanced.

VII. INTEGRITY AND EFFICIENCY ISSUES

A. Introduction

Our Report concludes with the issue that in major part was the impetus for the creation of the Task Force -- allegations of corruption and widespread inefficiency within the Department. We have placed this topic at the end of the Report, not because its importance has diminished in our eyes, but because it became clear that the potential for corruption and inefficiency is rooted in large part in the deficiencies which we have pointed up through the preceding sections of this Report -- the lack of adequate tracking, reviewing, and management controls with respect to the collection of accounts receivable; the lack of clearly defined and automated audit selection procedures; the need for additional regulations and procedures which are binding on and followed by Department personnel as well as the public; the haphazard organizational structure which permits overlapping and/or uncoordinated audit and compliance efforts among several bureaus within the Department; the lack of an automated revenue accounting system; and inadequate pay scales, training programs, promotion and management control techniques. All of these deficiencies create the opportunity for corruption and inefficiency. In such a situation, there are relatively few checks on the small minority of dishonest Departmental employees and there are few safeguards for the vast majority of honest employees.

The Task Force recommendations made with respect to the above problems will, if implemented, we believe go a long way toward both restoring public confidence in the integrity and efficiency of the Department and raising the pride and morale of Departmental employees. But additional actions are required to address specifically the charges of corruption and inefficiency.

B. Internal Inspection

We turn first to a set of recommendations for actions to be implemented within the Department itself:

- . There should be created a separate Division of Inspectional Services under the supervision of a Deputy Commissioner who reports only to the Commissioner.
- . The Division should be composed of two separate offices: one for internal security and one for internal audit.
- . The Inspectional Services Division functionally must be completely independent of all other operations in the Department and should be physically located outside the Department.
- . Employees within the Inspectional Service should be highly trained career employees within that Division alone, should not be members of the employee union, and should be given adequate powers to perform their sensitive and frequently dangerous duties.

- . A Code of Conduct should be instituted for all Departmental employees.
- . Pre-hiring checks and investigation procedures should be established for all prospective Departmental employees.

The internal security consultant to the Task Force found that, prior to actions taken in the first six months of 1983, there was for all practical purposes no internal security operation within the Department of Revenue. Although a Bureau was delegated responsibility for the function, there was little evidence to indicate that it was being performed. For example, we were advised that although there had been some internal security investigations with respect to Department personnel over the past four years, none of these was initiated from within this Bureau.

The absence of internally discovered cases of employee misconduct is unfortunately no guarantee of employee honesty. In 1981, the Internal Security Bureau of the IRS conducted investigations that resulted in the indictment of 44 current and former IRS employees. Yet DOR internal security has uncovered not even one case for the past several years.

The lack of an effective internal security unit is at least as damaging to the vast majority of honest DOR employees as it is to public confidence. When, as has recently occurred, there are charges of misconduct by a few employees, the public is quick to believe that the Department is pervaded by dishonest individuals. And there is no mechanism to reassure the public that this is not the case. If an effective internal security system had been in place, the Department would have been in a position to assert and have the public believe that instances of employee dishonesty were aberrational. But that assurance could neither be given nor believed since there was no way to test its validity.

Moreover, the absence of an internal security division means that honest DOR employees have little internal support or protection when they encounter dishonest taxpayers who seek to corrupt the revenue system. In 1981, the IRS internal security division obtained 125 indictments against taxpayers, fivetimes the number of employee indictments.

We are pleased to report that the Department has commenced implementation of the Task Force's recommendations with respect to the internal security and efficiency functions. A new Division of Inspectional Services has been created under a First Deputy Commissioner. That Division will have the sole and exclusive responsibility for internal affairs (security) and internal audit. It will have no other responsibilities. Bureau chiefs have been selected for each of these two functions and staffing has begun.

Consistent with the Task Force recommendations, the Inspection Services Division will report solely to the Commissioner. It is planned that the Division will be physically located apart from all other DOR offices. Adequate staffing of the two offices and professional training for that staff are the next steps to be undertaken.

Departmental efforts to establish a strong internal security unit must be supported by three other actions:

1. Legislation should be submitted and enacted to exclude Inspectional Service personnel from union membership. (They would, of course, be covered by Civil Service.) This action is essential to eliminate the obvious conflict of interest that would arise if an internal security officer were expected to investigate possible allegations of misconduct by a member of his or her own union. We note that members of the IRS Inspection Service are not permitted to be members of a union.

2. Personnel in Internal Security should be provided with the powers necessary to insure that they can carry out their duties. It is important that these powers be vested in DOR personnel since internal security investigations will frequently involve the need to have access to information on tax returns and tax audits. Non-DOR personnel are properly precluded from seeing that confidential information. In this respect, the office should cooperate closely with the Attorney General who, of course, has the ultimate responsibility for prosecuting cases of employee or taxpayer misconduct.

3. A Code of Conduct should be drafted and implemented for all DOR employees. Adoption of such a Code is a matter for collective bargaining and we urge both Department officials and the unions involved to reach an early agreement on a strong and effective Code. The lack of a Code of Conduct assists only the few dishonest employees; its adoption will provide protection to the vast majority of honest employees.

As noted above, the internal audit function has been assigned to the Inspectional Services Division. The role of this office is a vital one to insure both the integrity and the efficiency of DOR operations. Lack of an effective internal audit program in the past has been a serious shortcoming within the Department. Our consultant could uncover only five instances in which internal audits had ever been undertaken by the Department.

The paucity of internal audits is in a sense not surprising. The major purpose of an internal audit is to determine whether existing controls and procedures are being followed. If there are no controls, there can by definition be no audit. As we have discussed in other sections of this Report, the lack of systems and management controls is a serious problem in major areas of Department operations. In addition, the lack of automated revenue accounting systems will also seriously hamper an effective internal audit program.

Without an effective internal audit function there is no way by which a Commissioner, the Governor, the legislature and ultimately the public, can be assured that sensitive departmental audit, collection, cash handling, and accounting functions are being handled honestly and efficiently. As in the case of internal security, it is essential that staff of the internal audit office be precluded from union membership to prevent inevitable conflicts of interest.

The Task Force consultants have recommended implementation of careful pre-employment investigations for prospective DOR employees. The Task Force has been advised that the recommended procedures are being implemented.

C. Depoliticization of DOR

We turn next to recommendations that are needed to supplement the above proposals.

- . With the exception of four-six top positions in the Department, all other management positions should be made removable only with cause.
- . Legislation should be enacted prohibiting all Departmental employees from making contributions to or on behalf of any candidate for state office or from participating in the campaign of any such candidate.
- . The Commissioner should promulgate a requirement that all personnel referrals, recommendations and other contacts not initiated by the Department be logged, showing the name, date, Department employee contacted, person making the contact and employee or potential employee who is the subject of the contact.

Two consultant groups to the Task Force examined the hiring, promotion and assignment practices of the Department. It was beyond the scope of their inquiries to determine the extent to which political influence has played a role in those practices. Nonetheless, we discerned a perception, both among the general public and within the Department, that political influence has played too large a role in personnel practices. We do not know the extent to which these views are accurate. Nonetheless, the very existence of the perception is damaging to the Department and its effective operation. In addition, it is equally important that the public be assured that politics plays no part in the assessment, abatement, audit and collections processes nor in the imposition of penalties. The Department is entrusted with enormous authority and discretion in carrying out these functions. The requirement that a taxpayer's affairs remain secret also means that their powers and discretion are exercised free of the public scrutiny to which actions of other government agencies are subjected. It is therefore crucial that the public be assured that the Department's operations are free of political interference.

The Internal Revenue Service today has achieved a high level of public confidence and respect in the integrity of its operation. But it must be remembered that in the 1950s, the Internal Revenue Service was racked by a series of scandals far more extensive than have been alleged with respect to the Department of Revenue. Present and former officials of the IRS expressed one forceful conclusion: The single most important factor in curbing corruption within the IRS was the depoliticization of the agency. Indeed, one former Commissioner of Internal Revenue, who has studied tax administration systems in several States and in other countries, expressed the view that the level of corruption in a revenue department was directly proportional to the degree of political interference and influence to which it was subject.

The Task Force cannot, of course prove the extent to which political influence has pervaded the Department nor the extent to which that factor has accounted for charges of corruption. But, given the present public concern with respect to the Department, we do not think the burden of proof is on either the Task Force or the taxpaying public to establish the connection. We believe rather that the burden is on those involved in the political process to take steps to assure the public that politics and political influence in fact do not play an improper role in the hiring, assignment or promotion of Departmental personnel or in the administration of the tax laws. The failure to assure that DOR is in fact depoliticized would, we believe, imperil the effectiveness of the recommendations contained in this Report for improvement of the Department.

In making the first recommendation above, we do not assert that every DOR position should be filled through non-political means. But, we do note that in the IRS, only two officials -- the Commissioner and the Chief Counsel -- are political appointments. This fact not only helps curb improper political influence, it also assures ambitious and competent employees that they can rise to the top of their chosen profession by remaining with the IRS. Similar benefits can be obtained for Massachusetts. It is, of course, appropriate for the position of Commissioner of Revenue to continue to be named by the Governor. Likewise, First Deputy Commissioners and the General Counsel's positions may appropriately be the subject of purely discretionary appointment. But the balance of Departmental positions should be filled free of political considerations.

Just as the public is entitled to assurance that persons outside the Department do not attempt to exercise undue influence with respect to Departmental operations, it is equally clear that the public is entitled to be assured that political activities of Departmental employees do not play a role in the hiring, assignment or promotion of those employees or in the handling of particular taxpayer cases. Departmental employees should be insulated from improper political interference from the outside; the necessary corollary is that they not undertake political activities of a nature which could be perceived to affect their positions or the manner in which they fulfill their responsibilities. Our proposal would only prohibit contributions to or participation in campaigns for state offices. It would not prohibit contributions to or participation in political campaigns at the local or federal level. A similar restriction is applicable to Federal employees and we believe it is needed for Departmental employees with respect to campaigns for state political offices. Taken together, our first two recommendations in this area are meant to send out the clear message: "Politics has no place in the Department of Revenue."

In making our recommendation concerning personnel contacts, we recognize that public officials and employees and others outside the Department are often in a position to recommend an individual to the Department. A staff member to the Joint Committee on Taxation or an employee of the Department of Welfare [Fraud Squad] could be examples of appropriate and desirable sources from which the Department might recruit future employees. We believe the circumstances of recommendations of this sort will make the appropriateness of the contact self-evident.

Our hope, of course, is that by publicizing personnel contacts made to the Department, political referrals will be reduced to the public's overall benefit. If some spontaneous, non-political referrals are also discouraged as a result, this is a modest price to pay.

We have considered the privacy interests of the employees which this proposal would affect. First, few personnel recommendations are spontaneous. Most recommendations are invited by the potential employee, and the public disclosure our recommendation entails is therefore largely within the potential employee's control. Background checking by the Department, which is to be encouraged, is exempt from our disclosure requirement.

Depoliticization of DOR cannot of itself guarantee the elimination of corruption or the development of highly motivated and competent career women and men. But the continued fact and/or perception of political influence in the Department is a guarantee that the potential for corruption and political favoritism will be ever present. The result inevitably will be the lack both of public confidence and high employee morale that are the essentials of a successful system of tax administration.

